ST. Marry UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

OPPORTUNITIES AND CHALLENGES OF CAPITAL MARKET ESTABLISHMENT IN ETHIOPIA

A Research Paper Submitted In Partial Fulfillment for the Award of Master Degree in Accounting and Finance

By: Dawit Habte

Advisor: Ass. Professor Mohammed seid

May, 2023

Addis Ababa, Ethiopia

DECLARATION

I, the undersigned declare that this thesis is my original work ,prepared under the guidance of ass.professor Mohammed seid. All resource of materials used for the thesis have been duly acknowledged ,I future confirm that the thesis has not been submitted either in part or fully to any higher learning institution for the purpose of learning any degree

Dawit Habte

Name signature

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies | Signature & Date

Advisor | Signature & Date

External Examiner | Signature & Date

Internal Examiner | Signature & Date

ENDORESMENT

This thesis has been submitted to St.Marry's universities, school of graduate studies for examination with my approval as university advisor.

Advisor Ass. Professor Mohammed Seid

Signature ________________________________

ACKNOWLEDGEMENT

Throughout the writing of this thesis I have received a great deal of support and assistance I would first like to express my deep and sincere gratitude to my advisor ass. Professor Mohammed Seid for his technical guidance in formulating the research methodology and unreserved professional feedback of the whole document

I would also like to tanks my parents and may friends for their love, understanding and support to successfully complete the research work

Table of Contents

LIST OF TABLES

LIST OF ABBREVIATIONS AND ACRONYMS

AACCSA	Addis Ababa Chamber of Commerce and Sectorial Association
AEO	African Economy Outlook
AGOA	African Growth and Opportunity Act
CIS	Collective Investment Scheme
ECMA	Ethiopian Capital Market Authority
ECX	Ethiopian Commodity Exchange
EMH	Efficient-Market Hypothesis
EMPIT	Ethiopia Capital Markets Project Implementation Team
ESDG	Ethiopian Share Dealing Group
ESE	Ethiopian Security Exchange
FDI	Foreign Direct Investment
FSDA	Financial Sector Deepening Africa
GERD	Grand Ethiopian Renaissance Dam
GDP	Growth Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
MOFED	Ministry of Finance and Economic Development
MOT	Ministry of Trade
NBE	National Bank of Ethiopia
NYSE	New York Stock Exchange
OTC	Over-The-Counter
SDCC	Security Depository and Clearing Company
SPSS	Statistical Package for Social Science
SRO	Self-Regulatory Organization
US	United States of America
USD	US Dollars

# ABSTRACT

The major goal of this research was to look into the opportunities and challenges of establishing a capital market in Ethiopia. To gather and evaluate primary data, the researcher used a cross-sectional descriptive study design, as well as qualitative and quantitative or mixed research approaches. Employees and managers from consulting firms, university lectures, and investors (both local and foreign) or banks, insurance, transportation, oil, real estate, and construction companies, and other credible sources who have direct contact with Ethiopia's capital market establishment process were the study's target population. Simple random and purposive sampling techniques were used to select the participants. Data was collected through a questionnaire, key informant interview, and document review. Statistical Package for Social Science (SPSS) version 23 was used to evaluate the acquired quantitative data using descriptive statistics such as tables, frequency distribution, and percentage. According to the findings of the study, the formation of a capital market in Ethiopia provides opportunities for easy selling and buying of shares, as well as contributing to the country's economic progress. It also creates opportunities by increasing public trust, determining true/fair share prices, providing investor protection, attracting more domestic and foreign investors, providing effective tools for monetary and fiscal policy, promoting an efficient financial system, improving accounting and auditing standards, and assisting the government's privatization efforts. Despite these opportunities, the study found that establishing a capital market in Ethiopia faces challenges such as a low level of foreign direct investment, the country's macroeconomic instability, low societal awareness of capital markets, corruption and poor governance, poor corporate governance practices, a lack of technological infrastructures, a lack of uniform accounting and auditing standards for the country's business transactions, the high rate of inflation, low level of saving rate in the country, and shortage of experts in the area of capital market. According to the study, an awareness-raising program should be implemented to boost the country's saving rate, which will enhance the amount of money available for investors to engage in the capital market. The study also suggested that the Ethiopian government need to develop a strategy to raise public knowledge regarding the aim and benefits of establishing a capital market in Ethiopia.

Keyword: Capital Market, Ethiopia, Opportunities and Challenges

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Capital Market refers to the market for securities that have a maturity of more than one year. Capital Markets are financial markets that facilitate the flow of long-term funds, with maturities of more than 1 year. Capital Market can be classified into: (i) Primary or the New Issues Market, and (ii) Secondary Market or the Stock Exchange. While the primary market deals with IPOs or New Issues by Share Companies, the secondary market refers to the market for already floated securities (Gitman, 2007). The primary market does exist in Ethiopia, though the breadth and depth may not be that much of developed economies. The presence of a secondary market in Ethiopia is still a dream (to be realized) (Asuri & Ejigu, 2014).

The capital market is designed to help firms, governments, and individuals finance long-term investments. Construction of factories, highways, schools, and homes are possible through funds traded in the capital market. Financial instruments in the capital market have original maturities of more than one year, as against money market instruments which are for less than a year. Components of Capital Market include the Stock Market, the Bond Market, the Mortgages Market, and the Futures Market (Rose, 2001).

Different scholars define capital markets based on their own view. A contemporary literature suggests that stock markets provide services that boost economic growth and contribute to the achievement of national goals. According to Ruecker (2011) research work financial market is a place in which financial assets are created or transferred that it is channeling money from those who do put for immediate use from who do have. A place stocks, shares and bonds of all types are bought and sold (Gomez, 2013) and one way of efficient financial movement. Among the global stock market London and New York stock markets are oldest and well organized in the world. As depicted by (Edosa, 2014) provides facilities for stock brokers, investors and corporations to trade in stocks. Instruments such as bonds, stocks, commodities, derivatives, options, currencies and so 2 on are traded (Mishkim and Eakins, 2006). It is a part of global economy.

Results from previous studies show that African capital markets, with the exception of the South African stock market, are generally small, illiquid, face infrastructural bottlenecks and have weak regulatory institutions (Yartey & Adjasi, 2007). Despite these problems, studies conducted by Tessema (2003) indicate that a well-functioning Ethiopian securities market could provide enhanced capital mobilization, efficient capital allocation, mobilization of savings for the economic sector, further flexibility in corporate finance, promotion of an efficient financial system and supply of long-term funding. Beside this Tessema (2003) indicated that having capital market in Ethiopia could bring benefit by improving accounting and auditing standards, provision of effective tools for monetary and fiscal policy, support of transparent and efficient privatization process, stimulation of private sector development, economic growth, lower unemployment rates and finally poverty reduction.

According to Burger and Warnock (2006), capital markets are an excellent way to attract foreign investors to invest in a country's projects, as well as to integrate countries and share risks. As a result, a financial system with a strong and dynamic stock exchange market will improve financial stability and the ability to manage risks, allocate capital, invest productively, and integrate nations. Government can use capital market instruments to raise capital as a substitute to the foreign borrowings, which is very much helpful in financing huge government projects for which government needs capital (El Wassal, 2013).

The capital market is an important segment of the financial system that plays an important role in the development of the economy. It is a means of mobilizing resources, allocating them efficiently in productive investments, and providing an ocean of opportunities to investors, corporations, and governments, such as risk sharing, money allocation, investment facilities, business funding, and raising funds for large and large projects (Madura, 2014). Capital market covers for circulation of money and allocation of resource which are very essential for the economic development and sustainability. African countries establish capital markets to trade in shares and allocate resources, emerging countries establishes capital market to mobilize a long term capital to use it for the huge industrializations to that leads to economic growth and development, developed countries also used it to their corporations to be financed, and all these countries have reached to their capital market establishment goals as well (Mulatu, 2016).

A stock exchange, according to Dawit (2019), requires technology infrastructure, dependable accounting information, and well-trained human resources. It also necessitates a legal framework and governance mechanism to protect investors' and creditors' rights and provide transparency in listed company management. The stock market is based on reliable, transparent, and timely public data. Pension funds and life insurance companies are the engines that keep the supply of long-term capital flowing, which is essential for the growth of stock markets in every economy. However, such organizations are not well-equipped to offer the long-term capital that a stock market requires.

Finally, the Ethiopian government is poised to set up the country's first capital market by 2022 (Muluken, 2021). Despite Ethiopia being one of the fastest growing economies in Africa, the country still doesn't have a capital market. According to the Office of the Prime Minister recently indicated that the government was planning to establish a capital market by 2022. The key bottlenecks in the finance industry, according to the study, are insufficient financial infrastructure, restricted financing and poor financial inclusion. The capital market proclamation, which guarantees the government a minimum of a quarter shares, has been amended by parliament. They will play on the secondary market floor for overseas investors. The highly anticipated proclamation stated in its preamble that it has established a capital market to support the development of the national economy by mobilizing capital, promoting financial innovation, and risk-sharing in investments; create a legal framework for capital market regulation and supervision to maintain the market's fairness, integrity, and efficiency, as well as to safeguard investors; and establish a legislative framework for capital market regulation and supervision that ensures the market's fairness, integrity, and efficiency while also protecting investors. The proclamation drafts universal requirements for the regulation of issuers seeking money from public investors, as well as a legal framework for effective capital market monitoring and surveillance to detect, mitigate, and avoid systemic risk to the country's financial market.

The formal establishing procedure of the ECMA is underway, following the approval of the 'capital market proclamation number 1248/2021' at the parliament's 14th session on Thursday, June 10, 2021. The Ethiopian Capital Market Authority (ECMA) is slated to open for business before the end of 2021, paving the way for the much-anticipated securities exchange to open in 2022 (Muluken, 2021). This study intended to do some analysis and add views in the discussion about the opportunities and challenges of capital market establishment in Ethiopia.

1.2. Capital Market Development in Ethiopia

For more than fifteen years, Ethiopia's economy has been developing at a quicker rate. This remarkable achievement was achieved because to a policy that prioritized substantial public investment. Ethiopia's annual rate of economic growth averaged 10.3 percent between 2005/06 and 2015/16, according to official statistics (World Bank, 2018). The economic growth rates registered for 2017/18 and 2018/19 were 7.7 percent and 9 percent respectively which were lower than the targets for the respective years and 10 years (NBE, 2018/19). Nevertheless, the growth is accompanied by slow structural transformation with the contribution of the industrial sector to GDP being not more than 17% and manufacturing sub-performance sector's was only 4% of GDP, far lower than predicted and anticipated in the country's industrial sector program (Zena, 2021).

According to the International Financial Corporation (2019), the private sector's access to credit and financing remained a major concern, with only 16.4 percent of this sector obtaining credit from banks for its activities in Ethiopia, compared to 41 and 21 percent in Kenya and Uganda, respectively. Ethiopia is ranked 175th out of 190 countries in terms of access to credit, with only 15 points out of a possible 100 and compare this point in the same ranking for Rwanda 95, Kenya 90 and regional average for Sub Saharan Africa 42 out of 100 (World Bank, 2019).

Failure to timely address the challenges had resulted in serious macro-economic imbalances which called for the current government to introduce a reform named ‘Home-grown Economic Reform’ aiming at reducing expansionary fiscal policy which was undermining the contribution of the private sector and crowding out the private sector according to the State Minister, Ministry of Finance (Ethiopian News Agency, 2019). This reform should, in my opinion, examine market-based financial resources access alternatives as an alternative to the bank-based system in its financial system review so that the private sector has more options for long-term investment needs. The Ethiopian economy had prior experience with the stock market, which was established in 1965 under the name of "Share Dealing Group" with a concentration on private investment community shares trading (Tiruneh, 2012). With the transition to a command economy and the nationalization of private property in 1974, the stock market was abolished. Following the fall of the command economy in 1991, the country underwent a series of economic policy and strategy changes, with reforms favoring market-led economic growth.

Many practitioners and academics in the country have cited the lack of a financial market, particularly a stock market, as a missing component in the country's economic reform efforts thus far. Under the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA), a group of entrepreneurs formed the Ethiopian Share Dealing Group (ESDG) by drafting rules and regulations, as well as by-laws, with the purpose of forming a stock market akin to the previous Addis Ababa Share Dealing Group of 1974 (Ruecker, 2011).

Recently, the Office of the Prime Minister issued one-page template that indicated the government of Ethiopia was planning to establish a capital market by 2022 (Dawit, 2019). According to the 'capital market proclamation no. 1248/2021', the Director General of the Ethiopian Capital Market Authority (ECMA) will be assigned by the Prime Minister. It is part of the formation process. The ECMA will also report to the Prime Minister.

1.3.Statement of the Problem

The capital market is an important part of the financial system that plays an important role in the development of the economy. It is a means by which resources are mobilized and efficiently allocated in productive investments. It provides an ocean of opportunities to investors, corporations, and governments, including risk sharing, money allocation, investment facilities, business funding, and capital raising (Madura, 2014). Capital market paves away for circulation of cash and allocation of resource which are very essential for the economic development and sustainability. African countries create capital markets to trade shares and allocate resources, emerging countries create capital markets to mobilize long-term capital for massive industrializations that lead to economic growth and development, and developed countries use stock markets to finance their corporations, and all of these countries have established capital markets (Mulatu, 2016).

In Ethiopia, several studies were conducted to assess the infrastructural development required to determine capital markets by different institutions, scholars, associations and consultants including NBE (1995), Asrat (1998), EASC (1995,1999), Stamps (2010), Ruecker (2011), PFEA (2012) have recommended to establish capital market upon fulfilling requirements required to establish capital market. Financial development is a requirement for economic progress, according to previous studies by Goldsmith (1969), McKinnon (1973), Shaw (1973), Fry (1988), and King and Levine (1993). These studies, on the other hand, did not take into account the development of telecom infrastructure or the current equity positions of private financial institutions and contractual saving institutions such as pension funds, both of which are critical prerequisites for the establishment of a capital market.

Following the country's economic policy, private companies such as banks, insurance companies, factories, and others were formed by selling shares through initial public offerings (IPOs) and Commercial Nominees Share Company (CNSC) without the use of capital markets, despite the fact that primary and secondary capital markets were clearly required. Commercial banks in the country extend loans based on collateral securities and only short-term finance whereas private companies required equity finance through selling of shares (Ruecker, 2011).

For more than a decade, Ethiopia's economy has been rising at a quicker rate. The transformation of the economic structure anticipated by growth has been gradual, and private sector participation in the growth process, which was supposed to soar, has been modest. The government's financial resource allocation policy, which mostly relies on banks as intermediaries, is regarded to be the primary cause of the private sector's poor performance. This policy has tended to favor public investment while crowding out the private sector. The current Prosperity Party government's reform initiative is believed to touch banks credit policy and inclusion of alternative financial market so that it can encourage greater and expanding private sector participation in the economy (Dawit, 2019).

There had been a few studies focusing on the implementation of capital markets in Ethiopia in the last 15 years with Ruecker (2011), Alemneh (2015), Mulatu (2016) and Mulunesh (2019) being the most recent study. These studies recommended the careful development of capital markets in Ethiopia. Many parties, such as the Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA), attempted to obtain the government's clearance for security market development based on the recommendations. Yet such efforts did not succeed.

Thus, the development of organized and vibrant secondary markets in Ethiopia is still to be realized. And also previous studies of capital market focused on establishment and post establishment, with particular emphasis on its impact on the growth of a country economy, but offered only few insights into the existing infrastructures frameworks, public awareness, the current legal and regulatory infrastructure, availability of skilled manpower and the accounting and auditing institution role and the benefits of implementation of capital markets. Beside this there were no studies conducted after the parliament of Ethiopia rectified 'capital market proclamation no. 1248/2021' on the establishment of capital market. Also, the current changes in the countries policies towards privatizing public organizations like Ethio Telecom, Ethiopian Airlines and others that will have impact on the implementation of capital market in Ethiopia have not been studied yet. As a result the researcher attempted to bridge the aforementioned empirical gap and mitigate the prevailing problems in the establishment processes of capital market in Ethiopia and the opportunities accompanying with it.

1.4. Basic Research Questions

Based on the above statement of the problem the general research question is stated as: What are the opportunities and challenges of capital market establishment in Ethiopia? And Based on this the following specific questions were raised as follows:

a. What are the opportunities of the establishment of capital market in Ethiopia have for investors?
b. What are the opportunities of the establishment of capital market in Ethiopia have for the countries business as whole?
c. What are the challenges of the establishment of capital market in Ethiopia?
d. What are the institutional and infrastructural requirements for the establishment of capital markets in Ethiopia?

1.5. Objectives of the Study

1.5.1. General Objective of the Study

The general objective of the study was to assess the opportunities and challenges of capital market establishment in Ethiopia.

1.5.2. Specific Objectives of the Study

The study's particular aims were as follows:

a. To examine the opportunities of the establishment of capital market in Ethiopia have for investors.
b. To identify the opportunities of the establishment of capital market in Ethiopia have for the countries business as whole.
c. To assess the challenges of the establishment of capital market in Ethiopia.
d. To evaluate the institutional and infrastructural requirements for the establishment of capital markets in Ethiopia.

1.6. Significance of the Study

The outcomes and results of this research would have potential value to the practitioners and academicians by providing useful information about the opportunities and challenges of capital market implementation in Ethiopia. By using the result obtained from this study, the Ethiopian Capital Market Authority (ECMA) can adjust their implementation process of capital market.

The study can be used as reference material by future researchers interested in further research on the opportunities and challenges of capital market implementation in Ethiopia by providing useful information. The study would be added to the existing literature and would be an important tool for students, academicians, institutions, corporate managers and individuals who wanted to learn more about the opportunities and challenges of capital market implementation in Ethiopia. This study is of importance to the researcher as it equips the researcher with the knowledge of conducting research on the opportunities and challenges of capital market establishment in Ethiopia. It would also help the researcher to obtain a master’s degree in accounting and finance.

1.7. Scope of the Study

This study is conducted on selected consulting firms, university lectures, NBE employees and investors (both local and foreign) found in Addis Ababa from June 2015 to April 2023. Conceptually, the study focused on the opportunities and challenges of capital market establishment in Ethiopia collected from the literature in particular by considering the existing infrastructure, the current legal and regulatory infrastructure, level of awareness of investors and other market players, availability of skilled manpower and also the benefits of the implementation of capital market in Ethiopia.

The data collection of the study was done from employees of the selected public and private institutions through structured questionnaires and interviews. Since the selected employees cannot be located at a specific time or date, the researcher selected the sample respondent employees by using purposive sampling techniques and also in order to identify employees that are directly related to the researcher specific objectives. The researcher employed both quantitative and qualitative approach to deal with the analysis of the data. The data obtained through structured questionnaires were analyzed quantitatively and the interview results were analyzed qualitative to triangulate the results of the study and the survey results were presented through descriptive statistics using SPSS software. In addition, this study focused only to the specified study area and do not include other private or public companies from other parts of the country. Therefore, any of the analysis and finding of this research is confined only to the selected study area. The results and conclusions in this finding may not be valid to places outside of the study area.

1.8. Limitations of the Study

From methodological point of view, the scope of the study was confined to samples taken from officials and representatives of the National Bank of Ethiopia, Ministry of Trade, Ethiopian Investment Agency, Ethiopian Commodities Exchange (ECX), University Instructors and Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) and others in Addis Ababa. Therefore it is interesting to replicate the study using nation-wide samples and compare results to provide better understanding of this topic in the wider Ethiopian context. As a methodology the study used descriptive study design due to novelty of the topic under the study in Ethiopia. So the findings of the study were restricted by limitations of the chosen methodology. The other limitation of this study is that all primary data was obtained from respondents through cross-sectional study using questionnaire and interview and also the respondent does not have efficiently knowledge and experience about capital market so the researcher face few respondent Finally, the study was limited to the above mentioned Opportunities and Challenges variables included in the study to identify the Opportunities and Challenges of Capital Market Establishment in Ethiopia.

1.9. Organization of the Study

The thesis was organized in to five chapters: the first chapter included an introduction for the study which states the general introduction. The second chapter focused on reviewing the literature theoretical and empirical literature related to the research area of stock exchange market and its implementation and refers to previous studies. The third chapter covered research design and methodology. The fourth chapter was devoted to data presentation, analysis, and interpretation. The fifth chapter covered result conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

This review of literature provides both theoretical and empirical concepts regarding to the concept of capital market development, its impact and its contributions for countries, companies and individual investors.

2.1.Theoretical Framework

2.1.1. Efficient-Market Hypothesis (EMH)

According to the Efficient-Market Hypothesis (EMH), financial markets are "informationally efficient." That is, given publicly available knowledge at the time of investing, it is impossible to continuously achieve risk-adjusted returns in excess of average market returns. The theory is divided into three categories: "weak," "semi-strong," and "strong." Weak EMH asserts that prices on traded assets (such as stocks, bonds, or real estate) already represent all publicly available information in the past. Prices reflect all publicly available information, and prices vary instantly to reflect new public information, according to the semi-strong EMH. Strong EMH also asserts that prices reflect even secret or "insider" knowledge in real time. There's evidence for and against weak and semi-strong EMHs, but there's a lot of evidence for strong EMHs (Burton, 1996).

Beyond the usual utility maximization agents, the efficient-market hypothesis requires that agents have a reasonable expectation; that the population as a whole is correct (even if no single person is), and that the agents update their expectations as new relevant information becomes available. It's worth noting that the agents don't have to be rational. When faced with new information, EMH enables for some investors to overreact while others underreact. The EMH just requires that investor reactions be random and follow a normal distribution pattern, such that the net effect on market prices cannot be leveraged indefinitely to make a huge profit, especially when transaction costs are taken into account (including commissions and spreads). As a result, any individual can be mistaken about the market indeed, everyone can be wrong about the market but the market as a whole is always correct. The efficient-market hypothesis can be expressed in three ways: weak-form efficiency, semi-strong-form efficiency, and strong-form efficiency, each of which has different consequences for how markets operate (Burton, 1996).

In weak-form efficiency, future prices cannot be predicted using data from the past. Long-term excess returns cannot be achieved using investment methods based on historical share prices or other historical data. Technical analysis approaches will not be able to consistently generate excess returns, however some forms of fundamental analysis may. Share prices do not have any serial dependencies, meaning that asset prices do not follow any "patterns." This means that future price adjustments are exclusively due to information not contained in the price series. As a result, prices must take a random stroll. This 'soft' EMH does not require prices to remain at or near equilibrium, but rather that market actors cannot profit systematically from market 'inefficiencies.' While EMH predicts that all price movement (in the absence of fundamental information change) is random (i.e., non-trending), many studies have found that stock markets tend to trend over weeks or longer time periods (Khan and Arshad, 1986) and that there is a positive correlation between degree of trending and length of time period studied (but note that over long time periods, the trending is sinusoidal in appearance) (Granger et al., 2007). Various theories have been proposed for such huge and seemingly nonrandom price fluctuations. The best answer appears to be that stock price distributions are non-Gaussian, in which case EMH would not be strictly valid in any of its existing versions.

According to semi-strong-form efficiency, share prices react quickly and unbiased to publicly available new information, resulting in no additional gains from trading on such information. Neither fundamental nor technical analysis techniques can reliably generate extra profits due to semi-strong-form efficiency. The adjustments to previously unknown news must be of a fair size and must be immediate in order to test for semi-strong-form efficiency. To check for this, look for persistent upward or downward adjustments following the original modification. If there are any such changes, it means that investors evaluated the data in a biased and inefficient way (Burton, 1996).

Share prices, both public and private, reflect all information in strong-form efficiency, and no one may gain excessive returns. Strong-form efficiency is impossible to attain unless the constraints are regularly broken if there are legal hurdles to private information becoming public, such as insider trading prohibitions. A market must exist where investors cannot regularly gain excess returns over a lengthy period of time in order to test for strong-form efficiency. Even if some money managers routinely outperform the market, this does not rule out strong-form efficiency: with hundreds of thousands of fund managers around the world, even a normal distribution of returns (as efficiency predicts) should yield a few dozen "star" performers (Chan et al., 2003).

2.1.2. Theory of Capital and Investment

Irving Fisher's capital and investment theory was first presented in his books Nature of Capital and Income (1906) and Rate of Interest (1907), albeit it is best known for his Theory of Interest (1930). Fisher's (1930) "second approximation to the theory of interest," in which the firm's investment decision is treated as an inter-temporal problem, is a source of concern.

Fisher assumed (pay attention to this) that all capital was circulating capital in his theory. In other words, because all capital is used up in the manufacturing process, there was no "stock" of capital K Instead, all "capital" is actually investment. Later, Friedrich Hayek (1941) would criticize Fisher's premise, namely how he could square his theory of investment with the Clarkian theory of production that underpins factor market equilibrium.

The separation theorem's second portion effectively asserts that the firm's funding requirements are unrelated to its production decision. To understand why, we can use Fisher's Neoclassical theory of "actual" loanable funds (Fisher's, 1930). The supply of "loanable funds" equals intended savings minus desired investment of savers, whereas the demand for "loanable funds" equals desired investment plus desired borrowing of borrowers.

It's worth noting that in order for total investment to equal total savings, the demand for loanable funds must equal the supply of loanable funds, which is only achievable if the rate of interest is properly defined. We would not have investment equal to savings if the interest rate was such that the demand for loanable funds was not equal to the supply. As a result, according to Fisher's "real" theory of loanable funds, the rate of interest that balances supply and demand for loanable funds also balances investment and savings.

2.1.3. Theory of Market Microstructure

Market microstructure is a discipline of finance that studies the mechanics of market exchange. While market microstructure theory applies to the exchange of real or financial assets, the microstructure of financial markets has greater evidence due to the availability of transaction data. Market microstructure study focuses on the manner in which a market's functioning mechanisms influence the determinants of transaction costs, prices, quotations, volume, and trading behavior. Market microstructure, according to O'Hara (1995), is the study of the process and effects of trading assets under a set of rules. Microstructure theory focuses on how unique trade processes affect the price formation process, whereas much of economics abstracts from the mechanics of trading. Market structure and design, price formation and discovery, transaction and timing costs, information and disclosure, and market maker and investor behavior are all topics covered by microstructure.

The link between price determination and trading regulations is the focus of market structure and design. For example, certain markets are controlled by brokers who function as intermediates, whereas others are dominated by dealers who hold inventory (e.g., new vehicles) (e.g. housing). One of the most pressing issues in microstructure research is how market structure influences trading costs and if one structure is more efficient than another. The process of determining the price of an asset is referred to as price formation and discovery. For example, in certain markets, prices are established through an auction process, while in others, prices are negotiated (e.g., new automobiles) or simply posted (e.g., a local grocery), with customers having the option of purchasing or not. Transaction cost and timing cost is a component that considers transaction costs and timing costs, as well as their impact on investment returns and execution methods. Order processing costs, adverse selection costs, inventory holding costs, and monopolistic power are all examples of transaction costs. Information and disclosure is concerned with market information and transparency, as well as the impact of information on market participants' behavior (O'Hara, 1995).

2.2. The Concept of Capital Market

A capital market is a marketplace where buyers and sellers trade financial securities such as bonds, stocks, and other derivatives. The buying and selling process involves both individuals and institutions. Surplus funds from depositors are channeled through capital markets to institutions, who subsequently invest them in productive uses. This market mostly deals in long-term securities (The Economic Times, 2021).

The two forms of capital markets are primary and secondary markets. New issuance of stocks and other securities is traded on primary markets, whereas existing or previously-issued securities are traded on secondary markets. The nature of the securities traded, i.e. stock market and bond market, is another major split in the capital market (The Economic Times, 2021).

2.2.1. The Concept of Stock and Stock Market

Stock is described as "a corporation's capital or principal fund raised by subscriber contributions or the selling of shares" (Black, 1991). Stock represents a share of ownership during a corporation (Mishkin, 2004). By and enormous, such sorts of stocks might be identified as security representing equity claims on the earnings and assets of the corporation. In this comment, the term stock is employed 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 (Mishkin, 2004). In simple terms, it's a market place where equity interests are exchanged either at face value, premium value or for fewer than the face value – also called discount stock (Wei, 2005). Thus stock exchange allows stockholders (shareholders) to transfer to a different investor once they want to sell their stocks.

It should be noted that stocks might be sold and purchased in primary capital market. In primary markets, new businesses can start by acquiring cash directly from households, and then selling fresh stocks to investors through the underwriting mechanism (Teklehaimanot, 2014). The selling of common shares to the general public through Initial Public Offering (IPO) within the primary market is an instance whereby widely held share companies under formation offer new shares to the investors (Kumulachew, 2011). It is critical not to lose sight of the fact that secondary markets play an important role in the regulation of initial public offerings of shares via listing rules, which are subject to stock exchange discretion (Koldertsavo, 2009).

On the opposite hand, within the secondary market, existing stocks are sold and purchased among investors or traders within the stock market through stock exchange. Furthermore, secondary market might be either auction market or dealer market. While the stock exchange is a component of an auction market, over-the-counter (OTC) is a component of the dealer market. The difference between stock exchange and OTC is that the previous exchange market operates during a structured manner and physical facility with a floor to which all stock transactions are supposed to be directed (Ratner, 1980). The over-the-counter market, on the other hand, has always operated in an unstructured manner with no physical infrastructure, allowing any qualifying firm to freely engage in stock transactions.

At this juncture, it's 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 (Rose, 1986). Unlike stock which as indicated before is an equity instrument, bond may be a debt security evidencing that a promise has been made by a government like Treasury Bills (TBills) or by corporation such as debenture to pay a specified amount of money in recognition of a loan to the business (Black, 1991). Like stock, a bond is differently of obtaining funds but this point "representing funds borrowed by the corporation or the government from the holder of the debt obligation". It's worth noting that both stock and bond markets are types of capital markets. Like stock exchange, bond market helps bond holders to transfer their bond to 3rd party once they want to sell it within the secondary market or use it as collateral to get loan from banks.

In brief, a stock exchange is an open market place which provides facilities for stock brokers, investors and corporations to trade stocks. Stock markets generally provide the means by which companies raise capital to start out new business or expand the prevailing business by offering new stocks to the general public. It also allows investors to sell their stock ownership in firms through a trading platform. Unlike the bond market, stock exchange provides a chance for companies to finance their business through equity investment.

2.2.2. The Role of Capital Markets

There are various literatures written on the role of capital market. This may include the following:

Enhanced saving mobilization and risk management:

Stock issues serve to extend the national savings rate by creating incentives to take a position. Since securities are risky investments, they typically earn higher returns than safer instruments like bank savings deposits and they also allow investors to diversify across industries, improving their risk-to-reward ratio (Tessema, 2003).

Offering Liquidity to Investments:

Stock markets offer larger returns without sacrificing the liquidity of an investment that investors value the most. Liquidity successively affects economic process positively by increasing incentive to take a position and save. According to Levine and Servos (1996), countries with a well-developed financial sector and a liquid capital market accumulate capital faster and improve productivity faster. As liquidity increases, firms gain increased assurance that they're going to be ready to exit from long-term investments. They therefore become more willing to form the permanent investments critical to development. Local customers, on the other hand, are more willing to use domestic savings. However, Yartey and Adjaski (2007) say, increased stock exchange liquidity may have an adverse effect on the speed of economic process by reducing the necessity for precautionary savings.

Redistribution of wealth facilitated by diffused ownership:

Stock markets give many of us (especially the poor) an opportunity to shop for shares of listed companies and become part owners of profitable enterprises. As a result of many people sharing in corporate earnings, big income disparities are reduced (Etienne & Vincent, 2008). Citizens develop a general sense of ownership and assume responsibility as business profits are distributed more widely. People will be brought together by their mutual protection of corporate interests, and ethnic and non-secular divisions will progressively fade away (Tessema, 2003).

Improved Corporate Governance:

Self and external regulation of the stock market helps to make sure that the market is functioning efficiently, fairly and transparently. Over the decades, the stock market has-been raising requirements for brand spanking new corporations seeking listing. These standards apply to the disclosure of all financial information about corporations whose stock is traded on the stock exchange. Such rules exert control over a company's management, prevent fraud, and promote corporate governance (Etienne & Vincent, 2008).

Efficient Resource Allocation:

In a free enterprise, problems with securities help raise capital for projects whose outputs are within the highest demand by society, and people enterprises which are most capable of raising productivity. As a result, access to capital rewards effective business management (Tessema, 2003). Without securities markets, companies must believe internal resources (retained earnings) for investment, on bank financing or on government grants or subsidies. Young enterprises whose products may have greater future demand are penalized by this forced reliance on self-finance. These new and growing enterprises often have little within the way of retained earnings. Bank lending to certain specified sectors referred as priority sectors results in inefficient resource allocation and widespread loan delinquencies. The prevalence of those problems reduces the extent of investments, productivity of capital and therefore the volume of savings. Even if government grants and subsidies are available, they have a tendency to produce market defects that contribute to financial price distortion. The constructive allocation role of securities markets is undermined by these flaws. Securities markets create better opportunities for little emerging companies to boost funds within the risk capital market since venture capitalists would be easier investing in new ventures with the knowledge that possible future divestment can happen through a public offering at a potentially substantial profit.

Competent and Vibrant Financial System:

Securities markets break the oligopoly that might be enjoyed by the banks within the absence of securities markets. Securities markets provide impetus for the establishment of monetary prices supported scarcity values instead of on administrative fiat. Market-determined financial prices and investment possibilities, in turn, attract more savings, forming a virtual loop of innovation and mobilization that improves the financial system's overall efficiency (Tessema, 2003).

Investor Education:

Stock markets through the brokerage community, investment advisers, security analysts, and well-developed financial journalists serve to teach the investing public and institutions like these are crucial to a country's economy (Etienne & Vincent, 2008). These well-informed investors will aid in the reduction of unfair trading activities in the financial markets. Stock brokers' attempts to amass wealth through speculation and short selling can be countered by investor education.

Barometer of the Economy:

Shares rise and fall on the stock exchange mostly due to market factors. When corporations, and thus the economy, exhibit signs of stability, share prices tend to climb or remain stable. As a result, the fluctuation of stock values can serve as an indicator of the economy's overall development (Etienne & Vincent, 2008).

Alternative to Taxation:

The Government and even local authorities may plan to borrow money so as to finance huge infrastructure projects by selling another category of securities referred to as bonds. These bonds are frequently issued on the bond markets, where the general public can purchase them. When the government or the agency gets this alternative source of funds, it not has the necessity to overtax the people so as to finance development (Etienne & Vincent, 2008).

2.2.3. Bank-Based versus Market-Based Financial Systems

Savings are mobilized, risks are priced, capital is allocated, and shocks are absorbed in different ways by bank-based and market-based financial arrangements. Banks perform financial intermediation and assume risks on their own balance sheet, typically based on tight client connections. By contrast, markets channel resources directly from savers to borrowers, serving as platforms where equity and debt securities are priced, distributed and traded (Bats & Houben, 2017).

Because of these distinctions, there has long been a discussion about the genuine economic virtues of bank-based vs. market-based financial institutions. The outcomes have shifted over time. Before 2008, there was no literature that favored one financial system over another. Instead, these studies discover that the degree of financial development and liberalization matters for the real economy (Demirgüç-Kunt and Levine, 2001c, Levine, 2002, Beck and Levine, 2002, Demirgüç-Kunt and Maksimovic, 2002, Bekaert et al. 2005), and that bank and market financing are equally important for economic growth (Demirgüç-Kunt and Maksimovic, 2002, Demirgüç-Kunt (Levine and Zervos, 1998, Boyd and Smith, 1998, World Bank, 2001, Beck and Levine, 2004). However, research produced in the aftermath of the 2008 financial crisis typically favors market-based systems. This is because a financial crisis in bank-based financial systems is more severe economically than in market-based financial structures (Gambacorta et al. 2014). In financial upturns, banks overextend and misallocate credit, while in financial downturns; banks cut credit more than markets (Pagano et al. 2015). As the European financial crisis shown, housing market crises can have a particularly severe impact in bank-based systems (Langfield and Pagano, 2016). Banks may deleverage their balance sheets and adopt more conservative lending practices if the value of assets used as collateral falls. This reduces bank financing.

The real economic gains of a financial structure are thus dependent on the financial system's stability, which is susceptible to systemic risk. A disruption in the flow of financial services that is I caused by an impairment of all or portions of the financial system; and (ii) has the potential to have substantial negative effects for the actual economy is known as systemic risk (BIS, FSB and IMF, 2009). Bank financing can contribute to systemic risk for a variety of reasons because banks perform financial intermediation on their own balance sheets. First, banks are highly leveraged. When times are an alternative source of financing when bank financing is disrupted (Crouzet, 2018). When bank credit tightens, market financing may substitute for it, resulting in fewer disruptions in the flow of financial services and a lesser risk of the banking system defaulting. This lowers the overall danger. In this respect, research show that during the 2008 financial crisis in the United States, a highly market-based financial structure, corporations replaced corporate bonds for bank loans (Adrian et al. 2012; Becker and Ivashina, 2014). When banks monopolize financing, however, borrowers may become reliant on bank loans, and markets have less room to expand and serve as a "spare tire" in the financial intermediation process (Greenspan, 1999). As a result, systemic financial crises may be more severe in financial arrangements dependent on banks. Bank-dependent enterprises, on the other hand, suffer greater valuation losses and profitability drops during financial crises than firms with access to public debt markets (Chava & Purnanandam, 2011). This indicates that market-based financial systems are more suitable than bank-based financial systems.

2.2.4. Challenges that Affect the Efficiency of Capital Markets

Various authors have discussed the factors that are required for capital markets to work properly. High liquidity, where there are many buyers and sellers; diversity, where the actors' investment options are not limited; low transaction costs, where the transaction process is efficient and the cost of trading is low; and fairness, where everyone has the same information and access to trade are all characteristics of well-functioning markets, according to Fredholm and Taghavi-Amel (2006).

a) Government

It has to do with a country's level of stability, peace, and internal security, as well as how well the government functions and maintains control. It also relates to the rule of law and how sufficiently strong and independent is the legal institution to protect property rights and encourages private ownership (Fredholm & Taghavi-Amel, 2006). Good quality institutions, such as law and order, democratic accountability, and bureaucratic quality, are essential predictors of stock market development, according to Yartey and Adjasi (2007), since they lower political risk and improve the viability of external funding. According to Bekaert and Harvey (1995), higher levels of political risk are associated with higher levels of market segmentation and, as a result, a low level of stock market development. Expected profits are related to the level of political risk, according to Erb et al. (1996). They discover that the lower the level of political risk, in both developing and developed countries, the lower the necessary returns (Yartey & Adjasi, 2007).

Governments can promote financial development by establishing a robust, independent, and effective legal system, where the judiciary can play a significant role in enforcing constitutional protection of person and property rights and arbitrating business disputes, according to Ndikumana (2001).

b) Legal Infrastructure

A well-founded, unambiguous, transparent, and enforced legal environment is required for an efficient market to function. In the principles of financial market infrastructures established by the Technical Committee of the International Organization of Securities Commissions (IOSCO), certain criteria were listed as key considerations in the legal infrastructure of stock exchanges for their proper functioning. These are:

- In all relevant jurisdictions, the legal framework should provide a high level of clarity for each material aspect of market activity.
- It must have clear, understandable rules, methods, and contracts that are compliant with applicable laws and regulations.
- There should be a clear and understood legal basis for its actions to appropriate authorities, participants, and, if applicable, participants' customers.

- Clear regulations, processes, and contracts should be in places that are enforceable in all relevant jurisdictions. Acts taken by the market infrastructure in compliance with such rules and procedures should not be invalidated, reversed, or subjected to stays.

c) Regulation

The stock exchange market needs to be regulated in order to boost public confidence, safeguard investors, and protect the economy from fraud and wild situations (Teklehaimanot, 2014). In the international arena, the financial crisis exposed flaws in financial institutions' risk management and supervision systems, reinforcing the need for strong minimum standards for firms' internal systems as well as stronger regulators of the system's design and implementation (Teklehaimanot, 2014). Typically, regulation and supervision are geared at protecting investors from insiders' possibly opportunistic behavior. Investor protection aids in the resolution of agency issues and information asymmetry caused by inside information (Yartey & Adjasi, 2007).

Carson (2011) proposes four main regulatory paradigms. One is the government (statutory) model, in which securities regulation is the responsibility of the government. The second is the limited exchange Self-Regulatory Organization (SRO) model, in which the government acts as the primary regulator and the exchange acts as a secondary regulator. The third is a strong exchange SRO model, in which the exchange conducts extensive regulatory functions while the principal regulator is the government. The fourth paradigm is an independent member SRO, in which the public authority places a large amount of reliance on an independent SRO.

d) Accounting and Auditing Standards

Accounting and auditing standards provide financial statement users with information that is consistent, standardized, relevant, and presents a genuine and fair picture of the company's financial activities.

Users of financial statements may have both overlapping and conflicting needs for the various types of financial statements and reports, according to Osei (1998). Accountants and auditors address these needs by preparing a single set of general purpose financial statements and reports that convey objective, unambiguous, and complete economic facts about the company's existence and operations. Accountants and auditors have adopted generally accepted accounting and auditing principles or standards to decrease the areas of disagreement and reduce the risks of bias, misinterpretation, inexactness, and ambiguity. These standards enable for a fair comparison of financial statements and reports across businesses and accounting periods. Because listed companies' accounts are prepared by respected firms, accounts presented to the stock exchange should meet worldwide accounting and auditing standards.

e) Macroeconomic Stability

A stable macroeconomic climate is critical for the stock market's growth. Macroeconomic volatility exacerbates the problem of informational asymmetries and exposes the financial system to risk. Inflation is more likely to contribute to stock market development and economic growth if it is low and predictable. Both domestic and foreign investors may be hesitant to engage in the stock market if substantial inflation is expected (Yartey & Adjasi, 2007). Sound macroeconomic settings and sufficiently high income levels GDP per capita, domestic savings, and domestic investments, according to Garcia and Liu (1999), are major predictors of stock market development.

f) Technological Infrastructure

Information and communication technology (ICT) has evolved into a potent development instrument, with applications ranging from bettering education and health care to expanding economic opportunities. ICT is critical for capital market actors to communicate and exchange information quickly; hence, make capital markets more efficient by incorporating all information into stock pricing (Teklehaimanot, 2014).

Automation aids in the speeding up of exchange procedures and activities while also lowering the costs associated with manual processes. Furthermore, due to less burdensome procedures, automation makes it easier to extend trading days and hours. Automated trading also eliminates the requirement for trade intermediation because investors can log on to systems to watch markets and trade on them without the need for brokers (Yartey & Adjasi, 2007).

g) Institutional Investors

Institutional investors, according to Yartey and Adjasi (2007), are frequently in the forefront of promoting efficient market processes and financial innovation. They prefer increased market openness and integrity in both main and secondary markets, as well as lower transaction costs and efficient trading and settlement facilities. As a result, pension funds, insurance companies, and other institutional investors can operate as a check on commercial and investment banks, as well as other market intermediaries, forcing them to become more competitive and efficient.

h) Financial Sector Development

Developing the financial intermediary sector, according to Yartey and Adjasi (2007), can help the stock market develop. The banking system's support services play an important role in the growth of stock markets.

i) Public Awareness of Capital Markets

The degree to which people are aware of stock exchange markets influences how much they participate in them. Potential market participants will be reduced if the general public is unclear of what stock markets are, the related rewards and risks, and what steps to take when certain market incidents occur, hence creating a barrier to entry. Formal education, the media, or market experience could all contribute to increased market awareness.

Social learning occurs when potential investors interact sequentially with another investor, and if one is aware, the other is as well, according to Guiso and Jappelli (2005). According to Guiso and Jappelli (2005), social learning increases the efficiency of a signal, making it more likely to reach a potential investor.

j) Public Trust

Trust is important in how financial services companies present themselves to their consumers (Ennew, 2008), and this is especially true in stock markets. According to Sapienza and Zingales (2005), meaningful insights into the core reasons of a country's financial strengths and weaknesses are found in trust. They found that trust enhances the likelihood of direct stock market engagement. Investor optimism is captured by trust because optimistic individuals may be enticed to invest in the stock market by their inflated expectations of rewards. The subjective conviction in the likelihood that a possible business partner would act honestly is described as trust (Lintari, 2006).

k) The Technological Infrastructure

According to Stei (2001), modern telecommunications infrastructure is important for taking full advantage of the latest trading and settlement technology; in particular, to eliminate distance cists and facilitate the widest possible network of market participants.

l) Economic Growth

In a study of 15 Latin American and East Asian countries, Garcia and Liu (1999) discovered that sustained economic growth, a high saving rate, liquidity, and a developed banking sector all influence stock market development, implying that economic development is important for stock exchange development.

m) Inflation

High rates of inflation increase the cost of living and cause a shift in resources from investments to consumption. As a result, demand for market instruments decreases, resulting in a decrease in the volume of stock traded. In addition, monetary policy responds to rising inflation rates by tightening economic policies, which raises the nominal risk-free rate and, as a result, the discount rate in the valuation model (Tweneboah, 2011).

n) Foreign Direct Investment (FDI)

Foreign capital inflows play an important role in a country's economic growth and development by reducing and cushioning shocks caused by poor domestic savings and investment. As a result, greater FDI has a beneficial impact on stock market liquidity. Furthermore, Adam and Anokye (2008) create a triangular relationship between FDI and stock market development, stating that when FDI supports economic growth, economic growth has a favorable impact on stock market development, meaning that FDI encourages stock market development. However, according to Kalim (2009), the role of FDI in stock market development is twofold: it can either complement or substitute for the development of a country's stock market.

o) High Rate of Domestic Savings

Stock market activity is accelerated by a higher rate of domestic savings in the economy (Kalim, 2009). In their empirical investigation, Garcia and Liu (1999) discovered a strong statistical positive association between stock market development and savings. They also claimed that increased savings lead to increased capital flows through stock markets.

p) Corporate Governance

Good corporate governance, according to Fredholm and Taghavi-Awal (2006), is essential to provide investors' confidence that their assets will be well-managed and that earnings will be returned to them. If corporate governance is poor, it will have a negative impact on investors' desire to invest. Also, as per Mishkin (2001), companies with better corporate governance outperform their peers. As a result, corporate governance has an impact on the capital market both in terms of capital availability (which influences desire to invest) and investment opportunity availability (by creating more successful companies that survive and grow).

2.3. Empirical Review

In his study on Stock Exchange in Africa: Prospects and Challenges, Kumo (2008) indicated that most African stock exchanges are still in their early stages of development, facing challenges such as political instability in some economies, high volatility in economic growth, macroeconomic uncertainty, liquidity constraints, a limited domestic investor base, underdeveloped trading and settlement structures, and limited market information (Kumo, 2008).

Murinde (2006) states in his paper, Capital Markets: Roles and Challenges that the growth of stock markets in Africa tends to follow an evolutionary process with several stages defined by the type of regulatory structure, trading mechanism, and market participation scope. Most of Africa's major marketplaces began with no publicly established rules and laws, and trading operations were based on personal relationships. Formal markets were then developed, either as a result of traders' need to diversify their sources of investment capital or as a result of governments' requirement to float their debt stocks. The regulatory framework, trading system, and market investor composition all changed during the formalization and regeneration process.

Murinde (2006) goes on to say that, with the exception of the Johannesburg Stock Exchange and, to a lesser extent, the Cairo Stock Exchanges, almost all of Africa's capital markets have significant flaws in terms of return and cost of capital, level of company listing, liquidity, and market efficiency. Moreover, despite the fact that stock markets in Africa and other emerging markets look to have higher returns than developed stock markets, the majority of these markets do not attract foreign investors. As a result, these are the key roadblocks to Africa's capital market development. Nonetheless, most African countries have rejuvenated their capital markets in terms of major institutional changes, such as regulatory framework rejuvenation, modernization of trading systems, and lifting of limitations on foreign investors, in order to improve their performance.

According to a study by Yarety and Adjasi (2007) on Stock Market Development in Sub-Saharan Africa, a sound macroeconomic environment, a well-developed banking sector, transparent and accountable institutions, and shareholder protection are some of the challenges that stock markets in Sub-Saharan African countries face in order to function efficiently. The same study also identified variables that aid in the development of African stock markets. These include the need for increased automation, demutualization of exchanges, regional exchange integration, institutional investor promotion, regulatory and supervisory reforms, foreigner investor participation, and instructional initiatives.

Woldesenbet (2008) outlined a number of variables that could stymie African stock markets. One is the question of macroeconomic and political stability in terms of inflation rates, domestic saving and investment levels, and the quality of institutions such as law and order, democratic accountability, and the rate at which government policies change. The second stems from the depreciation and broad changes in the value of African currencies, according to the report. The third is the international confidence crisis, which is fueled by pictures of war, famine, vast corruption, failing projects, sloppy governance, and flagrant human rights violations. This knowledge has ramifications for the stock market and the financial sector as a whole.

Osei (1998) examined the Ghanaian Stock Exchange institutional characteristics in terms of legal and regulatory frameworks, information disclosure requirements, transaction transparency, accounting and auditing standards, transaction costs, delivery and settlement of transactions, and barrier to entry in his study titled "Factors affecting the development of Ghana's emerging capital market." The study also shows that brokers perform satisfactorily in terms of delivery and settlement, but that implementing a centralized clearing system would improve clearing and settlement procedures.

The issues that the Daresselam Stock Exchange market is facing were investigated by Massele et al. (2013). The lack of ideal stock market characteristics in terms of liquidity, availability of information that leads to market efficiency, strong price sensitivity to new information, small price sensitivity, and narrow price spread are all issues that have impacted the market, according to the study. He also listed lack of public awareness and knowledge about the stock market, a small number of market participants, a lack of ICT and technology support for trading sessions and transaction settlement as challenges, as well as macroeconomic instability in terms of inflation, currency depreciation, unemployment, population growth, and poverty. The lack of qualified experts in the financial sector, such as stock analysts, financial analysts, lawyers, licensed brokers, and professional financial advisors, was also highlighted.

Musonera (2008) investigated some of the issues faced by the Rwandan Stock Exchange in a report titled Establishing Stock Exchanges in Emerging Economies. Low domestic savings, a complex tax regime, a lack of financial intermediaries, a lack of competent accounting and auditing skills, family-owned businesses, a lack of information, a lack of market infrastructure, and capacity development issues are among them.

Bohnstedt et al. (2000) did study on capital market development in Uganda, analyzing the potentials and limitations of the Ugandan stock exchange market and identifying the aspects that need to be improved in order for Uganda to have an effective market. Important initiatives include creating an enabling environment that offers macroeconomic stability, prudential financial sector regulation, active government support, a better tax regime and tax incentives, implementing a clearing and settlement system, and developing the accounting profession.

Using secondary data from 2005 to 2009, Josiah et al. (2012) investigated the factors of stock market development in the case of the Nairobi Stock Exchange. Institutional quality, as reflected by law and order and bureaucratic quality, democratic accountability, and corruption indices, are major factors of stock market development because they improve the viability of foreign funding, according to the findings of their study. However, there is no substantial association between stock market development and macroeconomic stability in terms of inflation and private capital flows, according to regression research.

On the subject of opportunities, Tessema (2003) stated that Ethiopia has several prospects (opportunity) for growing securities markets. Ethiopia has significant untapped resources and is considered one of Africa's largest potential markets; Ethiopia's processes of transitioning from a centrally planned to a market-oriented economic system, as well as the process of economic liberalization currently underway, are encouraging; and the ongoing privatization efforts would help with supply issues, particularly if they are successful. The existence of numerous lucrative enterprises that could benefit from floating shares to the general public; the existence of big financial institutions such as the country's pension fund, insurance companies, credit unions, and so on. They would increase demand for securities if they were allowed to participate; the steady enhancement of incentive packages in subsequent investment proclamations helps attract more investors, especially Ethiopians with foreign passports.

Furthermore, according to Teklay (2011), including the current scenario in share buying is a testament to 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 that can be reinforced a little more for a start.

Various authors have also noted challenges. Tessema (2003) lists several obstacles to the establishment of a stock exchange, including a lack of public awareness about securities markets, a lack of public confidence in share investments, a lack of institutional capacity to facilitate securities trading, the underdeveloped state of the bond (debt) market, a lack of private sector development, and a lack of market orientation in the stock exchange. Furthermore, the current state of affairs, according to Teklay (2011), does not ready the country for a full-fledged stock market.

Some of the likely challenges in establishing a stock market in Ethiopia, according to Solomon (2011), include: companies being too young to be judged on their profitability; companies' reluctance to go public and restrict their ownership; owner managers; financial inexperience; a lack of accounting/audit professional expertise; and an investment regime that favors individual ownership over portfolio investment.

Reucker (2011) assessed Ethiopia's market potential for the successful establishment of a stock exchange market. The study looked at the country's situation from a variety of perspectives, including government commitment, macroeconomic conditions, corruption and transparency, the business environment, foreign investment, legal and regulatory infrastructure, accounting and auditing practices, and market conditions.

The study looked at the internal and external contexts, as well as the challenges to Ethiopia's stock market establishment. These include a high level of poverty, volatile macroeconomic and political environments; legal, regulatory, accounting, tax, and supervisory systems influence stock market liquidity; a lack of awareness and willingness among Ethiopian policymakers; Ethiopian banks' oligopoly position in the financial system; Ethiopian banks' high reliance on loan income, poor savings culture, and no access for foreign investors. African stock markets are generally small and illiquid, with infrastructural bottlenecks and weak regulatory institutions, lack of financial sector liberalization, low government implementation capacity, and a high demand for knowledge, training, and education. Some potential market participants view the private sector as weak, disorganized, short-term oriented, emotional, and ineffective.

After studying the potential beddings and constraints in the establishment of stock exchange markets in Ethiopia, Teklehaimanot (2014) cites 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 factors. On the restrictions side, he noted the government's hesitation; underdeveloped infrastructure, such as legal and regulatory frameworks, media, and ICT; an immature financial sector, ignorant and small-base investors, and a professional scarcity.

Despite the difficulties, experts and other interested parties who assessed the possibility for a stock exchange market in Ethiopia have suggested that one be established. Teklay (2011), Ruecker (2011), and Tsegaye (2012) are among those who have recommended them. According to the African Development Bank (2010), now is the perfect time for Ethiopia to invest in the infrastructure needed to create a stock market. This will allow the country to mobilize capital while also encouraging people to save. Teklay (2011) indicated that, despite the fact that all of the preconditions have not been met, it is time to begin the process of establishing a stock exchange, and that we can begin operations at a low level. However, the government must be completely involved in the process and must be able to regulate, monitor, and supervise it.

2.4. Research Gap and Justification of the Research

To summarize, government commitment, policies, and laws; availability of market participants; the legal and regulatory framework that protects the rights and interests of shareholders; macroeconomic conditions such as GDP growth, FDI, inflation rate, and currency depreciation must all be given the necessary attention for an efficiently operating capital market to exist in a country. However, the above studies did not assess the telecom infrastructure development and present equity positions of private financial sector and contractual saving institutions like pension funds which are critical prerequisites to the implementation of capital market.

Previous studies of the capital market focused on its establishment and post-establishment phases, with a particular emphasis on its impact on a country's economic growth, but provided only a few insights into the role of accounting and auditing institutions, a skilled workforce in implementation processes, underdeveloped market infrastructures, the current legal and regulatory infrastructure, level of awareness of investors and other market players and current countries' privatization policies. The recent changes in the country's policies toward privatizing state enterprises such as Ethio-Telecom, Ethiopian Airlines, and the rectifying of the ‘capital market proclamation no. 1248/2021’ by house of representative in order to establish a capital market by 2022 and others, which would have an impact on Ethiopia's capital market implementation, have not yet been evaluated. Therefore, this study attempted to bridge the aforementioned empirical gap and tried to assess the challenges and opportunities in the establishment of capital market in Ethiopia.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter dealt with the research design, research approach, data type and source, target population of this study, sample design, data collection method and instrument used for data collection, method of data analysis and ethical consideration.

3.1. Research Design

A research design is a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings (Saunders et al., 2009). The research design for this study was descriptive study design to explore the opportunities and challenges of capital market implementation in Ethiopia.

3.2. Research Approach

The research approach of this study was both qualitative and quantitative research approaches for conducting the research because the overall strength of the study would be greater when both qualitative and quantitative research approaches were used (Creswell, 2009). A mixed approach or a combination of quantitative and qualitative research approach is used when more than one data collection technique is used with associated analysis techniques (Saunders et al., 2009). For instance in this study questionnaires were used to collect quantitative data and analyzing these data using statistical (quantitative) procedures and interviews were used to collect qualitative data and analyzing these data using non-numerical (qualitative) procedures.

3.3. Data Type and Source

Both primary and secondary sources of data were used to achieve the objective of the study. The primary data is collected from the beneficiary of the capital market in Ethiopia or from the employees and managers of consultation firms, university lectures, National Bank of Ethiopia, and investors (both local and foreign) and other credible sources through interview, questionnaires and also by referring secondary data at large. Secondary sources of data such as books, academic journals, report manual of organization, research reports and record data by concerned relevant offices and unpublished documents were collected for supporting the primary data sources. A secondary source of data is used in this study in order to acquire basic data regarding plans, regulations, reports and directions in relation to the study topic.

3.4. Target Population of the Study

The target population of this study contained employees and managers from consultation firms, university lectures and investors (both local and foreign) or banks, insurance, transportation, oil, real estate and construction companies and other credible sources who have direct contact with Ethiopian capital market establishment process. Also, the target population of this study contained employees and managers of National Bank of Ethiopia, Ministry of Trade, Ethiopian Investment Agency, Ethiopian Commodities Exchange (ECX) and Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) in order to grip on government's view and to identify the reasons thereof on initiating the establishment of capital market in the country. Therefore, the target populations of this study were employees and managers working at the head offices of the selected public and private organizations in Addis Ababa.

Target population	
Employees and managers from consultation firms, university lectures, insurance, transportation, oil, real estate and construction companies	45
Investors (both local and foreign)	15
Employees and managers National Bank of Ethiopia, Ministry of Trade, Ethiopian Investment Agency, Ethiopian Commodities Exchange (ECX) and Addis Ababa Chamber of Commerce and Sectorial Association (AACCSA)	36
Total respondent	96

3.5. Sample Design and Sampling Techniques

3.5.1. Sample Design

In designing the sample of the research study the study taken considerations for the need to make inferences from the sample of the population in order to answer the research questions and also meet the research objectives. The subject of the study was the Opportunities and Challenges of Capital Market Establishment in Ethiopia. Thus, the employees and managers of the head offices of the selected public and private organizations in Addis Ababa were included in the sample of this study by using purposive sampling techniques because they were respondents who have the knowledge and experience in the topic of the study which involves identifying and choosing respondents that are expertise and have more experienced with a phenomenon of interest.

According to Cochran (1977) there are several approaches or strategies used to determine the sample size of a study and the researcher prefers to use this formula. The researcher used the following formula to determine the sample size for this study because the population for the study is unknown and it is best suited for 5-point Likert Scale continuous data variable.

$$\boldsymbol{n = \frac{t^2 + s^2}{d^2}}$$

Where:

n = the required sample size: (?)

t = value for selected alpha level of 0.05 = 1.96 (the alpha level of 0.05 indicates the level of risk the researcher is willing to take that true margin of error may exceed the acceptable margin of error.)

s = estimate of standard deviation in the population = 1.25 (estimate of variance deviation for 5 point scale calculated by using 5 [inclusive range of scale] divided by 4 [number of standard deviations that include almost all (approximately 98%) of the possible values in the range])

d = acceptable margin of error for mean being estimated = 0.25 (number of points on primary scale * acceptable margin of error; points on primary scale = 5; acceptable margin of error = 0.05 [error researcher is willing to except])

So:

$$\mathrm{n} = \left(\frac{(1.96)^2 * (1.25)^2}{(0.25)^2}\right) = 96$$

Therefore the required sample size for this study is 96.

As triangulated data gathering system is advantageous to balance the limitation of one by the merit of the other and to enrich the study with more and deep information, key informants interview (constituting 10 individuals each, purposively selected senior and experienced academicians of business schools in Addis Ababa University, consultants and experts) were administered to identify enablers beddings for the market development in the country.

3.5.2. Sampling Techniques

Probability and non-probability sampling are the two types of sampling procedures. This study used both probability and non-probability sampling techniques to carry out the study. From probability sampling techniques, simple random sampling technique was used in order to collect primary data by using questionnaires from 96 randomly selected employees and managers of the head offices of the selected public and private organizations in Addis Ababa. From non-probability sampling techniques, purposive sampling technique was specifically used to select appropriate sample from the population or persons with knowledge and experience in the study's issue, which entails identifying and selecting respondents with competence and familiarity with a phenomenon of interest.

3.6. Methods of Data Collection

3.6.1. Primary Data Collection Method (Tools)

This study used both questionnaires and interviews to collect primary data for the study.

a) Questionnaires

Self-administered questionnaires were the main data collection instrument used in this study. Most of the questions in the questionnaire were developed from the review of related literature and composed of statements addressing each of the study variables. Open and close-ended questionnaires were distributed to the selected respondents. Currently, shares are traded in a fairly typical primary market in order to form new firms by opening temporary offices for a set length of time. Recent banks, insurance, transportation, oil, real estate and construction companies has been established predominantly through initial public offering. As a result of their solitary nature, they are purposefully included in the study. In doing so, a questionnaire was first developed, pre-tested, employed to collect data from 96 managers and employees from these firms' head offices which were chosen at random to obtain information on the financial sector's crystal balls and barriers, as well as share-based establishments.

The questionnaires contained both open and close-ended questions and translated into the Amharic language to get the required primary data from respondents. Respondents can contribute detailed information, feelings, attitudes, and understanding about the subject by answering open-ended questions. A closed-ended question, on the other hand, makes it easier for respondents to react. To make it easier for respondents to answer the questionnaire, a five point Likert scale measurement were introduced in the questionnaire to request respondents to indicate their level of agreement with the following ratings: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), and Strongly Disagree (1).

The questionnaires that are distributed to the respondents were organized in to three parts: Part I of the questionnaire contains demographic characteristics of the respondents (i.e. gender, age and level of educations), while Part II contains questions related to Opportunities of Establishing Capital Market in Ethiopia and Part III contains questions related to Challenges of Establishing Capital Market in Ethiopia.

b) Interviews

Interview questions were used to triangulate and support the data obtained through questionnaires and to gather information from respondents purposively selected from the study area. So, ten (10) face-to-face semi-structured interviews were made with managers and employees who were selected through purposive sampling from the companies included in this study. Interviews were also conducted with officials and representatives of the National Bank of Ethiopia, Ministry of Trade, Ethiopian Investment Agency, Ethiopian Commodities Exchange (ECX) and Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) in order to grip on government's view, and to identify the reasons thereof on initiating the establishment of capital market in the country. All participants who are willing to participate in the interview were selected and then the interview sessions were conducted in Amharic language, and then translated to English. The interview conversations took place were recorded, through brief memo-taking during conversation and summarizing the conversations immediately after the conversation have been completed.

3.6.2. Secondary Data Collection Method

The secondary data was collected through reviewing of materials, reports of the World Bank development indicators, National Bank of Ethiopia reports and various government institutions like MoT, MoFED, and IMF database and various journals and literatures. Also, different financial proclamations, economic policies, plans, regulations and directives as well as media products were consulted and critically reviewed, as a secondary source, to substantiate the first hand information.

3.7. Methods of Data Analysis

The data collected through the questionnaires were analyzed through descriptive statistics that involves frequency distribution, percentages, mean and standard deviation tabulations by using SPSS (Statistical Package for Social Science) version 23. Because of its simplicity and clarity in drawing inferences, descriptive statistics were used for this investigation. The close-ended questionnaires data were analyzed quantitatively while the primary data obtained through open-ended questionnaires; interview and document review were interpreted qualitatively and summarized in line with a relevant subject in relation to the study goals and objectives.

3.8. Ethical Considerations

A researcher must follow the principle of voluntary consent, which requires respondents to agree to participate in research voluntarily, according to Mugenda & Mugenda (2003). Informed permission should be based on information such as the goal of the research project, the researcher's identity, and any potential advantages. According to Mugenda and Mugenda (2003), research participation is voluntary, and subjects are free to leave the study at any moment without repercussions. The participants were told of this before the study began, and no respondent was forced to participate; rather, it was done voluntarily.

Plagiarism, according to Creswell (2009), is when you claim credit for something that was done by someone else and pass it off as your own. It occurs when you borrow someone else's ideas as if they were your own. All work borrowed from other scholars was acknowledged to the best of the researcher ability.

CHAPTER FOUR

RESULT AND DISCUSSIONS

4.1. Introduction

This chapter explains and discusses the results of findings based on the analysis done on the data collected. The results of the study are discussed by triangulating the different sources results such as questionnaires results, key informant interview as well as document review results. The discussion attempted to accomplish the objectives of the study and answer the research questions.

A total of 96 questionnaires which consists 26 closed-ended and 2 open-ended questions were distributed to the managers and employees of the selected private and public organizations for this study. From the total questionnaires, 94 questionnaires were fully completed, returned and used for the analysis of the study, with response rate of 97.9%. Beside this the researcher conducted 10 face-to-face interviews with the selected respondents to triangulate the responses gathered from the questionnaires.

4.2. Demographic Characteristics of the Respondents

Analysis of the demographic characteristics of the respondents presented in Table 4.1 below shows that gender wise 74(78.7%) of respondents were male and the remaining 20(21.3%) were female. On the other hand, as displayed in the Table 4.1 below, the majority of the respondents or 33(35.1%) aged between 36 and 45 years, followed by 28(29.8%) of the respondents age exist between 26 and 35 years, 17(18.1%) of the respondents age exist between 46 and 55 years, 11(11.7%) of the respondents aged less than 25 years and the remaining 5(5.3%) were above 55 years. This indicated that the majority of the respondents included in this study were male and aged between 36 and 45 years.

Regarding educational background of the respondents as shown in Table 4.1 below, the majority or 50(53.2%) of the respondents have educational qualification of master's degree and above, followed by 39(41.5%) of the respondents were first degree holders and finally only 5(5.3%) of the respondents were diploma holders. This result explains the study has got a proper input from well-educated staffs and managers of the selected private and public organization included in this study.

Table 4.1: Demographic Characteristics of the Respondents

No	Variables	Category	Frequency	Percent
1	Gender	Male	74	78.7%
		Female	20	21.3%
Total			**94**	**100.0%**
2	Age	Less than 25 years	11	11.7%
		Between 26 and 35 years	28	29.8%
		Between 36 and 45 years	33	35.1%
		Between 46 and 55 years	17	18.1%
		Above 55 years	5	5.3%
Total			**94**	**100.0%**
3	Educational Qualification	Diploma	5	5.3%
		First Degree	39	41.5%
		Master’s Degree & Above	50	53.2%
Total			**94**	**100.0%**

Source: Own Survey Result (2023)

4.3. Descriptive Analysis of the Study

To measure the extent or degree of impact each items in the variables of opportunities and challenges of Establishing Capital Market in Ethiopia the researcher adapted an instrument used by Alotaibi, et al., (2013). This instrument first covert the five point Likert Scale into three categorical scale levels, (i.e., high, average, low) by trimming the upper and minimum values as follows: the upper limit of the score to study (5) scores - the minimum for a study of scores (1) = 3-4 levels (high, average, poor) = 4/3 = 1.33 and, therefore, a minimum 1 + 1.33 = 2.33, reducing the average 2.34 + 1.33 = 3.67 and maximum = 3.68 and above. If the arithmetic average or mean lies between (3.68 to 5.00) implies a high extent/degree of impact the item have on the Establishment of Capital Market in Ethiopia, and if on average or the mean value lies between the computational (2.34 to 3.67) means the extent/degree of impact the item have on the Establishment of Capital Market in Ethiopia is moderate, and if the arithmetic average or mean lies between (1.00 to 2.33) means the extent/degree of impact the item have on the Establishment of Capital Market in Ethiopia is low.

4.3.1. Opportunities of Establishing Capital Market in Ethiopia

In this section the study was aimed to identify the opportunities of establishing capital market in Ethiopia from the investor's perspectives and also from the countries perspectives. Thirteen proper questions were asked in order to get the extent of the agreement from respondents and from these questions: four questions were about the opportunities that investor's get from the establishment of capital market in Ethiopia and the rest nine questions were about the opportunities of establishing capital market in Ethiopia brings to the country as a whole.

Table 4.2: Opportunities of Establishing Capital Market in Ethiopia to Investors

No	Opportunities to Investors	Level of Agreement					Statistics	
		SD	D	N	A	SA	Mean	STD
1	It provides a ready market for investors to buy and sell their shares	0 (0.0%)	1 (1.1%)	18 (19.1%)	58 (61.7%)	17 (18.1%)	3.97	0.65
2	It serve as an alternate source of finance	0 (0.0%)	2 (2.1%)	17 (18.1%)	60 (63.8%)	15 (16.0%)	3.94	0.65
3	It provides protection for investors which stems from sets of rules of regulators	0 (0.0%)	2 (2.1%)	23 (24.5%)	61 (64.9%)	8 (8.5%)	3.80	0.61
4	It helps to attract more domestic and foreign investors	0 (0.0%)	2 (2.1%)	17 (18.1%)	59 (62.8%)	16 (17.0%)	3.95	0.66
Where: SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree & STD = Standard Deviation								

Source: Own Survey Result (2023)

The results in Table 4.2 above indicated that according to the respondents of the study, the overall opportunities of establishing capital market in Ethiopia to investor's items had scored an average mean value between 3.80 and 3.97 with a standard deviation value between 0.61 and 0.66. This indicated that the respondents of the study have agreed on the overall opportunities of establishing capital market in Ethiopia to investor’s items highly. Besides this, the four questions having the mean response greater than 3 and the standard deviation less than 1 indicates that the respondents have similar perspectives on the issues.

As shown in Table 4.2 above respondents were asked for their level of agreement for the statement that states establishing capital market in Ethiopia provides a ready market for investors to buy and sell their shares. Their responses were 58(61.7%) agree, 18(19.1%) neutral, 17(18.1%) strongly agree and 1(1.1%) disagree with mean value of 3.97 and standard deviation of 0.65. This indicated that establishing capital market in Ethiopia would provide an opportunity for the investors by providing a ready market for them to buy and sell their shares. Secondly, the respondents were asked to rate for their level of agreement for the statement that states, establishing capital market in Ethiopia serves as an alternate source of finance to investors. As shown in Table 4.2 above their responses were 60(63.8%) agree, 17(18.1%) neutral, 15(16.0%) strongly agree and 2(2.1%) disagree with mean value of 3.94 and standard deviation of 0.65. This indicated that the establishment of capital market in Ethiopia would provide an opportunity for the investors by serving as an alternate source of finance.

The findings of the interview are almost identical to those of the previous discussions, indicating that the dominant sources of investment finance in Ethiopia are banks for any business or individual in need of capital, but the establishment of a capital market in Ethiopia will provide an alternative source of finance. Furthermore, the studied respondents stated that obtaining loans from banks has its own set of bureaucratic procedures that can take a long time. Banks are currently requiring collateral in order to disburse loans and conduct feasibility assessments. However, such conditions do not exist in the capital market, which might be a viable alternative to banks for businesses and investors. Banks are also more interested in supplying borrowers with soft loans for operating capital rather than long-term investments. As a result, the capital market provides what banks do not. As a result, the creation of a capital market boosts competition among financial institutions and undermines commercial banks' monopoly on the country's source of finance by giving an alternative source of money.

According to the interviewed respondents, the formation of a capital market in Ethiopia would provide them with a ready market to buy and sell their shares. For example, rather than storing money at home or depositing it in the bank, a person who inherited a large sum of money from family members can invest the money by purchasing shares from companies who require the money to acquire capital and expand their company. First, the individual earns more money, and second, the individual assists the organization in adding value. Such a method is necessary in Ethiopia because of the capital scarcity. The capital market attracts investors, large corporations, and service providers. These businesses require more finance to expand their operations and hire more workers. Investment banks and private equity banks will emerge as firms that assist capital markets. There is no investment bank in Ethiopia, and if one is founded, it will connect money owners with share firms. Meanwhile, it generates its own revenue.

From the total respondents, 61(64.9%) of them agreed, 23(24.5%) of them responded neutral, 8(8.5%) of them strongly agreed and 2(2.1%) of them disagreed with mean value of 3.80 and standard deviation of 0.61 for the statements that states the establishment of capital market in Ethiopia will provide protection for investors which stems from sets of rules of regulators. This showed that the establishment of capital market in Ethiopia will result a set of rules that regulates the operation of the market which in turn provides protection for investors. Besides as shown in Table 4.2 above significant percentages of respondents or 59(62.8%) of them agreed on the statements that states the establishment of capital market in Ethiopia will helps to attract more domestic and foreign investors and the rest, 17(18.1%), 16(17.0%) and 2(2.1%) responded neutral, strongly agree and disagree respectively with mean value of 3.95 and standard deviation of 0.66. This indicated that the establishment of capital market in Ethiopia will provide an opportunity for the investors to invest in the country whether the investor is domestic and foreign investors. This is due to the presence of capital market will result a legal and regulatory framework that is concerned with the protection of investors, efficiency of markets and reduction of systematic risk, that can attract both domestic and foreign investors.

The Capital Market Proclamation 1248/2021, according to the interviewed respondents, established a legal and regulatory framework for the development of important capital market institutions. By laying down the principles for licensing, registration, information exchange, and reporting requirements, it creates a clear and open regulatory framework aimed at maintaining fair and efficient markets. The Capital Market Proclamation 1248/2021, according to the interviewees, protects investors' rights, particularly the rights of minority investors, and prevents and mitigates systemic risks by establishing disclosure rules and accounting standards. As a result of the availability of a legal and regulatory framework that protects investors, the formation of capital markets in Ethiopia will help to attract more domestic and foreign investors.

Table 4.3: Opportunities of Establishing Capital Market in Ethiopia to the Country

No	Opportunities to the Country	Level of Agreement					Statistics	
		SD	D	N	A	SA	Mean	STD
5	It builds public trust and confidence to invest in share companies	0 (0.0%)	0 (0.0%)	19 (20.2%)	62 (66.0%)	13 (13.8%)	3.94	0.58
6	It contributes to country's economic development	0 (0.0%)	1 (1.1%)	17 (18.1%)	58 (61.7%)	18 (19.1%)	3.99	0.65
7	It necessitates the determination of true & fair price of shares companies	0 (0.0%)	1 (1.1%)	27 (28.7%)	47 (50.0%)	19 (20.2%)	3.89	0.73
8	It helps to attract more domestic & foreign investors	0 (0.0%)	0 (0.0%)	23 (24.5%)	49 (52.1%)	22 (23.4%)	3.99	0.70
9	Promote efficient financial system	0 (0.0%)	1 (1.1%)	22 (23.4%)	52 (55.3%)	19 (20.2%)	3.95	0.69
10	Allow de-concentration of ownership	0 (0.0%)	1 (1.1%)	27 (28.7%)	46 (48.9%)	20 (21.3%)	3.90	0.73
11	Improve accounting and auditing standards	0 (0.0%)	2 (2.1%)	25 (26.6%)	45 (47.9%)	22 (23.4%)	3.93	0.77
12	Provide effective tools for monetary and fiscal policy	0 (0.0%)	0 (0.0%)	28 (29.8%)	47 (50.0%)	19 (20.2%)	3.90	0.70
13	Help privatization efforts made by the government	0 (0.0%)	1 (1.1%)	25 (26.6%)	47 (50.0%)	21 (22.3%)	3.94	0.73
Where: SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree & STD = Standard Deviation								

Source: Own Survey Result (2023)

In relation to the opportunities of establishing capital market in Ethiopia brings to the country as whole, nine questions were presented to the respondents. Thus, all questions had a mean response of more than 3.00 and standard deviation of less than 1.00 as shown in Table 4.3 above, depicting that respondents' perception is closer to one another. Also, the mean value of the items lies between 3.89 and 3.99, and the standard deviation value between 0.58 and 0.77 indicated that all nine of the items in Table 4.3 above, showed that their impact was substantial.

As shown in Table 4.3 above, respondents were asked for their level of agreement for the statement that states establishing capital market in Ethiopia builds public trust and confidence to invest in share companies. Their responses were 62(66.0%) agree, 19(20.2%) neutral, and 13(13.8%) strongly agree as shown in Table 4.3 above. This shows that the majority of the respondents or 75(79.8%) of them agreed that the establishment of capital market in Ethiopia builds public trust and confidence to invest in share companies highly, this result was supported by mean value of 3.94 and standard deviation of 0.58 as shown in Table 4.3 above. This indicated that the establishment of capital market in Ethiopia builds public trust and confidence to invest in share companies because the supervisory and regulatory framework protects investors.

The interviewed respondent gave a similar response to the previous debate, stating that establishing trust and confidence in the capital markets was a key precondition for the formation of capital markets in Ethiopia or anywhere else in the globe. This will be accomplished by promoting an efficient and effective supervisory and regulatory system that includes strong investor protection, powerful market participant oversight, strong surveillance and enforcement of marketplace rules and regulations, and high transparency. A robust and effective legislative framework is also vital for the integrity, growth, and development of capital markets, according to the interviewed respondent. As a general rule, the legal framework should safeguard investors, provide fair, efficient, and transparent markets, and decrease systemic risk. As a result of the endorsement of the 'Capital Market Proclamation No. 1248/2021,' the Ethiopian Capital Market Authority (ECMA) was established, with a legal infrastructure and governance system to protect the rights of investors and creditors and ensure transparency in the management of listed companies, according to the interviewed respondents. As a result, public trust and confidence in stock businesses will increase.

Respondents also asked their level of agreement about the establishment of capital market in Ethiopia can contribute to the country's economic development. Their responses were 58(61.7%) agree, 18(19.1%) strongly agree, 17(18.1%) neutral, and 1(1.1%) disagree as shown in Table 4.3 above. This shows that the majority of the respondents or 76(80.8%) of them agreed that the establishment of capital market in Ethiopia can contributes to country's economic development, this result was supported by mean value of 3.99 and standard deviation of 0.65 as shown in Table 4.3 above. This indicated that the establishment of capital market in Ethiopia will help to easily sell and buy shares and making more capital available to companies will contribute to the economic growth of the country.

The introduction of a capital market in Ethiopia, according to the respondents, might help the country's economic progress. The key potential gained from the construction of a capital market in terms of the country's economic development will be to promote saving, increase public trust, and provide a quick market for investors to buy and sell their assets. Aside from that, the interviewees stated that capital markets mobilize extra savings into the economy (such as pension funds), making more capital available to businesses, which can then create jobs and facilitate real-wage increases. At the same time, capital markets are linked to increased levels of productivity as resource allocation becomes more efficient, such as through better knowledge, good governance control systems, and the provision of finance to creative ventures.

The Ethiopian government's highly anticipated proclamation or 'Capital Market Proclamation No. 1248/2021' stated that the country will establish a capital market to support the development of the national economy by mobilizing capital, promoting financial innovation, and sharing investment risks, according to the interview results. Furthermore, the interviewed respondents stated that the capital market plays an important role in the development of a country's economy by providing a plethora of opportunities for investors, corporations, and the government, including risk sharing, money allocation, investment facilities, business funding, and raising funds for large and complex projects. The capital market regulates money circulation and resource allocation, both of which are critical for a country's economic progress and long-term viability. As a result, Ethiopia is building a capital market to mobilize long-term capital for massive industrializations that would lead to the country's economic growth and prosperity. And also benefits establishment of capital market are development financial sector efficient mechanism for channeling local saving to investment, reduce cost of capital and unemployment offer liquidity to investment reduce investment risk ,help government financing This finding is consistent with the finding of Mulatu (2016) and Bizuneh (2020)

As shown in Table 4.3 above, concerning the establishment of capital market in Ethiopia necessitates the determination of true and fair price of shares companies, from the total of respondents 47(50.0%) of them agreed, 27(28.7%) responded neutral, the rest 19(20.2%) and (1.1%) responded strongly agree and disagree respectively. This shows that the majority of the respondents or 66(70.2%) of them agreed that the establishment of capital market in Ethiopia necessitates the determination of true and fair price of shares companies, this result was supported by mean value of 3.89 and standard deviation of 0.73 as shown in Table 4.3 above. This shows that the establishment of capital market in Ethiopia will result in need of or will the resolve the problem of true and fair price of shares companies in the country.

The interview results also indicated similar findings as described above and showed that the Ethiopian 'Capital Market Proclamation No. 1248/2021' adopted a legal framework for the regulation and supervision of the capital market to ensure the fairness, integrity, and efficiency of the market and protect investors; legislate uniform requirements for the regulation of issuers who desire capital from public investors, and necessary to adopt a legal framework for effective monitoring and surveillance of the capital market to detect, mitigate, and prevent systemic risk to the country's financial market, the proclamation drafted. Therefore, this result indicated that due to presence of a legal framework for the regulation and supervision of the capital market to ensure the fairness, integrity, efficiency of the market and protect investors in the country will result in a true and fair price of shares companies in the country. This result is in line with the result described in Muluken (2021).

Respondents were asked their level of agreement about the establishment of capital market in Ethiopia can help to attract more domestic and foreign investors, as shown in Table 4.3 above, from the total of respondents 49(52.1%) of them agreed, 23(24.5%) responded neutral and the rest 22(23.4%) responded strongly agree. This shows that the majority of the respondents or 71(75.5%) of them agreed that the establishment of capital market in Ethiopia can help to attract more domestic and foreign investors, this result was supported by mean value of 3.99

and standard deviation of 0.70 as shown in Table 4.3 above. This showed that the establishment of capital market in Ethiopia will help to attract more domestic and foreign investors.

The interview results revealed similar findings to those discussed above, indicating that the formation of an Ethiopian capital market will help to attract more domestic and foreign investors since capital markets provide investment options and risk management tools to investors. First, capital markets can provide more appealing investment alternatives than bank savings in terms of return, though at a higher risk. Furthermore, if a diverse range of products is available, capital markets can provide investors with a diversified portfolio, which helps to control risk. Higher rates of return are required to assure adequate payouts in the future, which is especially important for pension funds and insurance firms in nations with young populations. Finally, through the derivatives markets, well-developed capital markets give risk management instruments. This outcome is consistent with the findings of World Bank Group (2020).

As shown in Table 4.3 above, for the statement that states the establishment of capital market in Ethiopia can promote efficient financial system in the country, from the total of respondents 52(55.3%) of them agreed, 22(23.4%) responded neutral, the rest 19(20.2%) and 1(1.1%) responded strongly agree and disagree respectively. This shows that the majority of the respondents or 71(75.5%) of them agreed that the establishment of capital market in Ethiopia can promote efficient financial system in the country, this result was supported by mean value of 3.95 and standard deviation of 0.69 as shown in Table 4.3 above. This shows that the establishment of capital market in Ethiopia can promote efficient financial system in the country.

According to the interviewed respondents, the formation of a capital market in Ethiopia can help the country's financial system run smoothly by supporting good corporate governance. The rights and equitable treatment of shareholders, information transparency, and the duties of board members and management teams are all part of corporate governance. Capital market authorities can guarantee that corporations that have used capital markets to meet their financing needs disclose material information or accounting records in a clear, transparent, timely, and full manner. Proper corporate governance processes would foster a transparent and efficient market, as well as increased investor confidence, which can lead to or support a more efficient financial system in the country.

As shown in Table 4.3 above, for the statement that states the establishment of capital market in Ethiopia allows de-concentration of ownership, from the total of respondents 46(48.9%) of them agreed, 27(28.7%) responded neutral, the rest 20(21.3%) and 1(1.1%) responded strongly agree and disagree respectively. This shows that the majority of the respondents or 66(70.2%) of them agreed that the establishment of capital market in Ethiopia allows de-concentration of ownership, this result was supported by mean value of 3.90 and standard deviation of 0.73 as shown in Table 4.3 above. This shows that the establishment of capital market in Ethiopia allows de-concentration of ownership.

The interviewed respondents also indicated that the establishment of capital market in Ethiopia allows de-concentration of ownership through selling of shares of the company. In capital market one can purchases a share and poses ownership rights over the company, earns dividend and when the value of the share increases, he/she can sell his/her share and gain more profit. Because of this the ownership rights of the company can be de-concentrated to individual shareholders of the company instead of a single owners or a couple of owners.

Respondents were asked their level of agreement about the establishment of capital market in

Ethiopia can improve accounting and auditing standards, as shown in Table 4.3 above, from the total of respondents 45(47.9%) of them agreed, 25(26.6%) responded neutral and the rest 22(23.4%) and 2(2.1%) responded strongly agree and disagree respectively. This shows that the majority of the respondents or 67(71.3%) of them agreed that the establishment of capital market in Ethiopia can improve accounting and auditing standards, this result was supported by mean value of 3.93 and standard deviation of 0.77 as shown in Table 4.3 above. This showed that the establishment of capital market in Ethiopia will help to improve accounting and auditing standards in the country.

The interview results revealed similar findings to those described above, indicating that the establishment of an Ethiopian capital market will aid in the improvement of accounting and auditing standards, as capital market establishment necessitates the adoption of international capital market standards and principles aimed at promoting fair, efficient, and transparent markets. As a result, improved accounting and auditing standards will be implemented, which will be easily understood by both foreign and domestic investors. In addition, the respondents to the survey stated that the formation of a capital market will raise Ethiopia's accounting and auditing standards to a high and internationally acceptable level. Audited financial statements are also required to include from share companies and public firms in their financial reports. Because public offerings and listings are common, the criteria for publicly available annual reports, as well as their preparation and presentation, must adhere to a thorough set of accounting rules. As a result, the country's accounting and auditing standards will be improved.

Respondents were asked their level of agreement about the establishment of capital market in Ethiopia can provide effective tools for monetary and fiscal policy, as shown in Table 4.3 above, from the total of respondents 47(50.0%) of them agreed, 28(29.8%) responded neutral and the rest 19(20.2%) responded strongly agree. This shows that the majority of the respondents or 66(70.2%) of them agreed that the establishment of capital market in Ethiopia can provide effective tools for monetary and fiscal policy, this result was supported by mean value of 3.90 and standard deviation of 0.70 as shown in Table 4.3 above. This showed that the establishment of capital market in Ethiopia will help to provide effective tools for monetary and fiscal policy of the country.

The interview results revealed similar findings to those described above, indicating that the establishment of the Ethiopian capital market will aid in the provision of effective tools for monetary and fiscal policy because the capital market provides an alternative financial savings option for households and institutional investors, consisting of equities, bonds, and other securities. Ethiopians will also be able to save with long-term maturities and access long-term savings liquidity via the Capital Market. In addition, the establishment of a capital market in Ethiopia will open up a new market for the country's financial ecosystem players, as well as non-financial enterprises, allowing them to access capital for long-term, riskier projects, putting pressure on them to improve corporate governance and innovation while also providing risk hedging opportunities. As a result, the government will be able to reduce reliance on inflationary and distortive funding sources, as well as external financing. As a result, the creation of a capital market in Ethiopia will almost certainly put pressure on the government to reform its fiscal and monetary policies.

Finally, as shown in Table 4.3 above, for the statement that states the establishment of capital market in Ethiopia can help privatization efforts made by the government, from the total of respondents 47(50.0%) of them agreed, 25(26.6%) responded neutral, the rest 21(22.3%) and 1(1.1%) responded strongly agree and disagree respectively. This shows that the majority of the respondents or 68(72.3%) of them agreed that the establishment of capital market in Ethiopia can help privatization efforts made by the government, this result was supported by mean value of 3.94 and standard deviation of 0.73 as shown in Table 4.3 above. This shows that the establishment of capital market in Ethiopia can help privatization efforts made by the government in the country.

The interviewed respondents also indicated that the establishment of capital market in Ethiopia can help privatization efforts made by the government by selling shares on the capital market that will be established or the government of Ethiopia will have a capital market that can be used to sale its shares of the public organizations like Ethio-Telecom, Ethiopian Airlines and others which are on the way of privatization. Beside this, the interviewed respondents indicated that the Ethiopian 'Capital Market Proclamation No. 1248/2021' gave a minimum of quarter share (25%) for the government; this showed the rest 75% shares will be controlled by the private investors. Therefore, the establishment of capital market in Ethiopia can help privatization efforts made by the government.

Lastly, the opportunities of establishing capital market in Ethiopia from the investor's perspectives and also from the countries perspectives implies that most of the respective respondents believe that the establishment of capital market in our country at this time helps to easily sell and buy shares and it contributes to the economic growth of the country. A significant level of agreement was obtained from respondents in terms of building public trust, determining true/fair share prices, providing investor protection, attracting more domestic and foreign investors, providing effective tools for monetary and fiscal policy, promoting an efficient financial system, improving accounting and auditing standards, and assisting government privatization efforts. This result is consistent with the findings of Mulatu (2016) and Muluken (2021).

4.3.2. Challenges of Establishing Capital Market in Ethiopia

In this section the study was aimed to identify the challenges of establishing capital market in Ethiopia from the investor's perspectives and also from the countries perspectives. Ten proper questions were asked in order to get the extent of the agreement from respondents.

Table 4.4: Challenges of Establishing Capital Market in Ethiopia

No	Challenges of Establishing Capital Market in Ethiopia	Level of Agreement					Statistics	
		SD	D	N	A	SA	Mean	STD
1	Low level foreign direct investment	0 (0.0%)	2 (2.1%)	31 (33.0%)	44 (46.8%)	17 (18.1%)	3.81	0.75
2	Macroeconomic conditions of the country	0 (0.0%)	2 (2.1%)	30 (31.9%)	42 (44.7%)	20 (21.3%)	3.85	0.78
3	Low level of awareness of society about capital markets	0 (0.0%)	2 (2.1%)	29 (30.9%)	43 (45.7%)	20 (21.3%)	3.86	0.77
4	Corruption and lack of good governance	0 (0.0%)	2 (2.1%)	36 (38.3%)	37 (39.4%)	19 (20.2%)	3.78	0.79
5	Low level of corporate governance	0 (0.0%)	2 (2.1%)	34 (36.2%)	38 (40.4%)	20 (21.3%)	3.81	0.79
6	Lack of technological infrastructures	0 (0.0%)	1 (1.1%)	21 (22.3%)	54 (57.5%)	18 (19.1%)	3.95	0.68
7	Accounting and auditing standards of the country	0 (0.0%)	1 (1.1%)	19 (20.2%)	51 (54.2%)	23 (24.5%)	4.02	0.70
8	The high impact of inflation rate	0 (0.0%)	0 (0.0%)	21 (22.3%)	46 (48.9%)	27 (28.8%)	4.06	0.72
9	Low level of saving rate in the country	0 (0.0%)	0 (0.0%)	24 (25.5%)	51 (54.3%)	19 (20.2%)	3.95	0.68
10	Shortage of experts in the area of capital market	0 (0.0%)	1 (1.1%)	21 (22.3%)	58 (61.7%)	14 (14.9%)	3.90	0.64
Where: SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree & STD = Standard Deviation								

Source: Own Survey Result (2023)

As shown in Table 4.4 above in relation to the challenges of establishing capital market in Ethiopia, ten questions were presented to the respondents. Thus, all questions had a mean response of more than 3.00 and standard deviation of less than 1.00, depicting that respondents' perception is closer to one another. Also, the mean value of the items lies between 3.78 and 4.06, and the standard deviation value between 0.64 and 0.79 indicated that all the ten items in Table 4.4 above, showed that their impact is high.

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) can bring foreign capital inflows which have significant contributions to a country's economic growth and development by lessening and mitigating shocks resulting from low domestic saving and investment. Hence increased FDI has positive effect on the liquidity of capital markets.

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states a low level of foreign direct investment poses a challenge in establishing capital market in Ethiopia. Their responses were 44(46.8%) agree, 31(33.0%) neutral, 17(18.1%) strongly agree and 2(2.1%) disagreed as shown in Table 4.4 above. This shows that the majority of the respondents or 61(64.9%) of them agreed that a low level of foreign direct

Investment poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 3.81 and standard deviation of 0.75 as shown in Table 4.4 above. This indicated that the low level of foreign direct investment in the country poses a challenge in the establishment of capital market in Ethiopia.

The interviewed respondents indicated that even though Ethiopia's FDI was low compared to other countries in Africa, currently it is becoming even lower because of the challenges the country has faced, including the government's law enforcement operation in Tigray regional state, drought, the effects of conflicts between Russia and Ukraine, the impact of COVID-19, and polarized and misleading international media reports affecting the investment sector. Beside this the interviewed respondents indicated that the war against the rebels of "Shene" in Oromiya Regional State also affecting the FDI in Ethiopia. Therefore, the instability peace and the misleading international media reports of the country result a low level of foreign direct investment in the country which poses a challenge in the establishment of capital market in Ethiopia. This result is in line with the result described in Bairu (2018).

Macroeconomic Conditions of the Country

Macroeconomic conditions or stability is also a significant factor for the capital market development in the country. With a higher macroeconomic stability, it is expected that more firms and investors can take part in the capital market. A corporate profitability can be influenced by changes in monetary, fiscal and exchange rate policies. Therefore, the researcher assumed that countries which have a stable macroeconomic environment should experience stronger developments in their capital markets. The effect of macroeconomic stability on capital market establishment is measured by the real GDP growth.

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states Macroeconomic conditions of the country poses a challenge in establishing capital market in Ethiopia. Their responses were 42(44.7%) agree, 30(31.9%) neutral, 20(21.3%) strongly agree and 2(2.1%) disagreed as shown in Table 4.4 above. This shows that the majority of the respondents or 62(66.0%) of them agreed that the Macroeconomic conditions of the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 3.85 and standard deviation of 0.78 as shown in Table 4.4 above. This indicated that the Macroeconomic conditions or stability of the country poses a challenge in the establishment of capital market in Ethiopia.

By considering secondary sources of data on the Macroeconomic conditions or stability of the country, Ethiopia's real GDP growth in 2022, fell to 5.3% in 2022 from 5.6 in 2021 , was the lowest in 17 years, reflecting the impact of the drawn-out conflict and the economic fallout from the coronavirus pandemic (African Economy Outlook, 2023). The economic consequences of the war have been disastrous for Ethiopia, which once was the leading economic power in the Horn of Africa. Ethiopia's growth is at its lowest rate in nearly two decades; the current-account deficit has also widened, with the country now estimated to be importing about US$14.2bn worth of goods per year and to have exported goods worth just US$4.3bn in 2021. Consequently, Ethiopia's foreign-exchange distresses have worsened, and its external debt stock is estimated to have risen to US$31.9bn in 2021 (equivalent to 34.8% of GDP, up from 31.4% in 2020) (African Economy Outlook, 2023).

The interviewed respondents indicated that since civil war broke out in Ethiopia in November 2020 the spectra of political and economic collapse has loomed over the country. What initially believed to be a quick operation to restore order in Tigray has escalated into an extended conflict with devastating political, economic and social consequences. Beside this the interviewed respondents indicated that four main issues will define Ethiopia’s economic and political landscape in 2022: the Tigray conflict, debt-restructuring negotiations under the G20 framework and with China, hindered economic reform and the risk of a potential conflict with Egypt over the Grand Ethiopian Renaissance Dam (GERD). Therefore, the Macroeconomic instability of the country poses a challenge in the establishment of capital market in Ethiopia.

Awareness of the Society about Capital Markets

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states low level of awareness of the society about capital markets in the country poses a challenge in establishing capital market in Ethiopia. Their responses were 43(45.7%) agree, 29(30.9%) neutral, 20(21.3%) strongly agree and 2(2.1%) disagreed as shown in Table 4.4 above. This shows that the majority of the respondents or 63(67.0%) of them agreed that the low level of awareness of the society about capital markets in the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 3.86 and standard deviation of 0.77 as shown in Table 4.4 above. This indicated that the low level of awareness of the society about capital markets in the country poses a challenge in the establishment of capital market in Ethiopia.

A similar reaction to the previous discussion was given by the interviewed respondent, who stated that a lack of knowledge about capital markets influences the degree of engagement in the markets. If the general public is unclear of what capital markets are, the number of potential market participants will decline, posing a barrier to the country's capital market establishment. Formal education, the media, or experience gained via market participation could all contribute to increased awareness. As a result, the respondents proposed that the Ethiopian government devise a strategy to raise public knowledge regarding the aim and benefits of establishing a capital market in Ethiopia. This outcome is consistent with the findings of Mulunesh (2019).

Corruption and Lack of Good Governance

Corruption is a form of dishonesty or a criminal offense which is undertaken by a person or an organization which is entrusted with a position of authority, in order to acquire illicit benefits or abuse power for one's personal gain. Corruption may involve many activities which include bribery, influence peddling and embezzlement, and it may also involve practices which are legal in many countries (Rahman, 2018). Corruption fundamentally runs contrary to accountability and the rule of law because it undermines governance, diminishes public trust in the credibility of the state, and threatens the ethics of government and society (African Union, 2018).

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states corruption and lack of good governance in the country poses a challenge in establishing capital market in Ethiopia. Their responses were 37(39.4%) agree, 36(38.3%) neutral, 19(20.2%) strongly agree and 2(2.1%) disagreed as shown in Table 4.4 above. This shows that the majority of the respondents or 55(58.5%) of them agreed that corruption and lack of good governance in the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 3.78 and standard deviation of 0.79 as shown in Table 4.4 above. This indicated that the presence of corruption and lack of good governance in the country poses a challenge in the establishment of capital market in Ethiopia.

The secondary sources of data on corruption and lack of good governance in Ethiopia indicated that there are high levels of corruption in Ethiopia, although less high than in comparable regional countries. Examples of corruption include facilitation payments and bribes being necessary to keep land leased from the state or in order to obtain government contracts. Ethiopia ranked 107 out of 180 countries in Transparency International’s 2017 Corruption Perceptions Index (CPI) (Transparency International, 2018).

Beside this the Worldwide Governance Indicators (WGI) by the World Bank (2018) accords the following scores in percentile rank to Ethiopia: the Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with zero (0) corresponding to lowest rank, and 100 to highest rank (World Bank 2018c). Control of corruption scored 33.2%, Government effectiveness 23.6%, Political stability and absence of violence or terrorism 7.6%, Regulatory quality 13.9%, Rule of law 33.7% and finally voice and accountability scored 9.9% (World Bank, 2018). This showed that there is lack of good governance in Ethiopia, which is a challenge for the establishment of capital market in Ethiopia.

The interviewed respondents also indicated that the presence of corruption in the country led to a lack of good governance in the country's public as well as private organizations, which contradicts the foundation idea of capital markets. Therefore, the interviewed respondents showed that the presence of corruption in the country resulted lack of good governance in the business environment which poses a challenge in the establishment of capital market in Ethiopia. This result is in line with the findings of Bairu (2018) and Mulunesh (2019).

Corporate Governance

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place (Fernando, 2006).

Corporate governance focuses on the rights and equitable treatment of shareholders, information disclosure and the duties of board members and management teams. The capital market regulators can ensure that companies that have accessed capital markets to fulfill their financing needs to have clear, transparent, timely and complete disclosure of material information or accounting records. Proper corporate governance mechanisms will promote a transparent and efficient market and increase investors' confidence which in turn can result or can promote efficient financial system in the country (Fernando, 2006).

Respondents were asked for their level of agreement for the statement that states low level of corporate governance in the country poses a challenge in establishing capital market in Ethiopia as shown in Table 4.4 above. Their responses were 38(40.4%) agree, 34(36.2%) neutral, 20(21.3%) strongly agree and 2(2.1%) disagreed as shown in Table 4.4 above. This shows that the majority of the respondents or 58(61.7%) of them agreed that low level of corporate governance in the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 3.81 and standard deviation of 0.79 as shown in Table 4.4 above. This indicated that due to low level of corporate governance in the country poses a challenge in the establishment of capital market in Ethiopia.

Similarly, the interviewed respondents stated that the country currently has a low degree of corporate governance. More specifically, the legal and constitutional instruments do not provide an adequate regulatory framework, key international conventions and standards have not been approved, investor and creditor protection laws are insufficient, and the lack of an organized capital market is a significant deficit that contributes to a lack of transparency. Furthermore, the interviewed respondents stated that share firms in Ethiopia are now suffering from inadequate corporate governance, with founders, directors, and executives pursuing their own interests rather than the interests of shareholders, particularly minority owners. This is because in share firms, ownership is separated from the control of dispersed shareholders and transferred to a small number of managers, resulting in the principal-agent relationship. Because agents (managers) have greater information and knowledge than shareholders, they may misappropriate the principals' (shareholders') investments.

Finally, the interviewed respondents also indicated that currently in Ethiopia the approved capital market proclamation or 'Capital Market Proclamation No. 1248/2021' will help to avoid the poor corporate governance practices and adopt a legal framework for the regulation and supervision of the capital market to ensure the fairness, integrity, and efficiency of the market and protect investors; and necessary to adopt a legal framework for effective monitoring and surveillance of the capital market to detect, mitigate, and prevent poor corporate governance practices to the country's financial market. This result is in line with the result described in Alemneh (2015) and Muluken (2021).

Lack of Technological Infrastructures

Technological Infrastructures or Information and Communication Technology (ICT) have become a powerful tool for development extending its role from improving education and health system to widening business opportunities. For actors in the capital market, ICT is vital to communicate and exchange information swiftly; hence, make capital markets more efficient by including all information in stock prices.

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states lack of technological infrastructures or ICT in the country poses a challenge in establishing capital market in Ethiopia. Their responses were 54(57.5%) agree, 21(22.3%) neutral, 18(19.1%) strongly agree and 1(1.1%) disagreed as shown in Table 4.4 above. This shows that the majority of the respondents or 72(76.6%) of them agreed that the lack of technological infrastructures or ICT in the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 3.95 and standard deviation of 0.68 as shown in Table 4.4 above. This indicated that the lack of technological infrastructures or ICT in the country poses a challenge in the establishment of capital market in Ethiopia.

By considering secondary sources of data on the Technological Infrastructures or ICT in the country, though improvements and expansion have been seen, the general public and more particularly the business community is not blessed to modern, fast, fair and equitable use of ICT in Ethiopia. The state-owned telecommunication company, Ethio-telecom the sole telecom service provider, provides sluggish, unreliable and expensive internet and phone services. Ethiopia is seen as one of the last few underserved telecoms markets with a population of over 115 million people. As of February 2022, there were only 58.7 Million Mobile voice subscribers, 23.8 million data and internet user's, fixed services 923,000 and fixed broadband subscribers reached 443,000, and telecom density reached 58.5%, which account 51%, 20.7%, 0.8% and 0.39% of the population (Ethio-Telecom, 2022). This coverage is very low by any standard. The farmer, the backbone of the country's economy accounting more than 80% of employment, is scantly addressed by the ICT territory and internet is unthinkable in rural areas.

The interviewed respondent gave a similar response to the above discussion, adding that while there are insufficient technological infrastructures or ICT for the establishment of a capital market in Ethiopia, there are also other challenges, such as fiber optic cable damage and power outages, which are among the challenges to the service provider's effort to expand and maintain network quality. This outcome is consistent with the findings of Mulatu (2016).

Accounting and Auditing Standards

The capital market establishment in a given country will help to improve accounting and auditing standards because the establishment of capital market requires the adoption of International Standards and principles of capital markets which are intended to promote fair, efficient, and transparent markets. Therefore, this will result in applying an improved accounting and auditing standard that can be easily understood by the foreign as well as domestic investors.

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states the current Accounting and Auditing Standards of the country poses a challenge in establishing capital market in Ethiopia. Their responses were 51(54.2%) agree, 23(24.5%) strongly agree, 19(20.2%) neutral and 1(1.1%) disagreed as shown in Table 4.4 above. This shows that the majority of the respondents or 74(78.7%) of them agreed that the current status of the Accounting and auditing standards of the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 4.02 and standard deviation of 0.70 as shown in Table 4.4 above. This indicated that the lack of uniform Accounting and auditing standards of the country's business transactions poses a challenge in the establishment of capital market in Ethiopia.

The interviewed respondent also indicated a similar response to the above discussion and also added that there is no uniformity of accounting standards in the country's business transactions and still there are business organizations using the GAAP systems and there are also some using the IFRS systems in their accounting standards. But currently the foreign and some local private and public business organizations using the IFRS systems in their accounting standards that are needed and used by the foreign business organization internationally which will pose a challenge to invest and participate in capital market in Ethiopia. Beside this the interviewed respondent showed that Accounting and auditing standards in Ethiopia are not of a high and international acceptable quality. Share companies are not required to include audited financial statements. As there is no public offering and listing, there are no requirements regarding publicly available annual reports and their preparation and presentation in accordance with a comprehensive body of accounting standards. The country's accounting and audit profession is weak to provide reliable financial information to primary users.

Even though Ethiopia's government has passed a financial reporting law that recognizes international reporting standards and established an Accounting and Audit Board to regulate the profession, Ethiopian businessmen are generally unwilling to provide financial information of any kind to the party in need, particularly in private business organizations, according to the results of the interview. As a result, financial data generated by private enterprises in most cases does not reflect the genuine picture. Such data shortages and mistakes have a severe impact on Ethiopia's capital market establishment and contribute to policy blunders. Except for public and government operations, information is not made available on websites, unlike in other nations. The information presented is frequently outdated, making any meaningful conclusion impossible. Until now, Ethiopia's laws and institutions governing firms, securities, and investors have fallen short of worldwide best practices and standards, posing a challenge to the country's capital market development. This result is in line with the result described in IOSCO (2020) and Bekele (2021).

The High Impact of Inflation Rate

The capital market is badly influenced by economic fluctuation. Both inflation and deflation fluctuate in the economy, which is a risk factor of the capital market. Inflation destroys economies' value and results in economic downfalls and has a high negative impact on the capital market of a given market (Bekele, 2021).

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states the current inflation rate in the country poses a challenge in the establishment of capital market in Ethiopia. Their responses were 46(48.9%) agree, 27(28.8%) strongly agree and 21(22.3%) neutral as shown in Table 4.4 above. This shows that the majority of the respondents or 73(77.7%) of them agreed that the current inflation rate in the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 4.06 and standard deviation of 0.72 as shown in Table 4.4 above. This indicated that the current high inflation rate in the country poses a challenge in the establishment of capital market in Ethiopia.

By considering secondary sources of data on the current inflation rate in the country the inflation rate peaked at 24.1 % in 2023-2024, which is becoming even higher recently than before and compared to the likes of other East African countries such as Kenya, Rwanda and Uganda, Ethiopia's inflation rate is higher. This is due to the low level of foreign reserves continues to exert pressure on the heavily managed Ethiopian birr in the context of constrained investment inflows. In early January 2021, as it had expected, the US suspended Ethiopia's duty-free access to the US market under the African Growth and Opportunity Act (AGOA) owing to the escalation of the conflict and the widespread atrocities being committed. The US buys about 10% of Ethiopia's exports and the loss of eligibility will increase balance-of-payments pressures, exacerbate foreign-currency shortages and adversely affect the textile and apparel sector and also considered as a factor increasing the inflation rate in the country (African Economy Outlook (AEO), 2023).

The interviewed respondent also indicated a similar response to the above discussion and also added that there are still conflicts carried out in Tigray, Amahara and Afar regions of Ethiopia which created favorable conditions for inflation and black market transactions in the country. This also created a situation that jeopardizes the country's plans for economic reform, which envisages infrastructure-led growth, aimed at securing returns on investments in infrastructure by liberalizing particular sectors and encouraging international companies to set up operations in the country's industrial parks. But the current political instability in the country led to the high rates of inflation in the country and increased the cost of living and causes a shift in resources from investments to consumption. Therefore, inflation rate in Ethiopia's economy poses a challenge in the establishment of capital market in the country. This result is in line with the result described in Zena (2021) and Woldegiorgis (2022).

Low Level of Saving Rate in the Country

The national savings rate of a country is composed by public and private savings. Public savings is the government surplus (or deficit) while private savings is the sum of personal savings and corporate savings (profits after taxes and dividends). From the perspective of capital availability for the capital market the most interesting measure is personal savings. Government and corporate savings are usually invested directly without going through the capital market (Fredholm & Taghavi-Awal, 2006).

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states the low level of saving rate in the country poses a challenge in the establishment of capital market in Ethiopia. Their responses were 51(54.3%) agree, 24(25.5%) neutral and 19(20.2%) strongly agree as shown in Table 4.4 above. This shows that the majority of the respondents or 70(74.5%) of them agreed that the current low level of saving rate in the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 3.95 and standard deviation of 0.68 as shown in Table 4.4 above. This indicated that the low level of saving rate in the country poses a challenge in the establishment of capital market in Ethiopia.

The interviewed respondent gave a similar response to the preceding discussion, adding that the country's low saving rate is due to bad saving culture and limited saving ability, both of which are a result of the country's low per capita income. As a result, Ethiopia's low savings rate offers a hurdle to the formation of a capital market, because as savings rates rise, more money will be available for investors to engage in the market. As a result, Ethiopia's low savings rate makes the formation of a capital market difficult. This result is in line with the result described in Ruecker and Shiferaw (2011) and Muluken (2021).

Shortage of Experts in the Area of Capital Market

Experts in the area of capital market are individuals who have a set of skills and knowledge that allows them to make informed and effective decisions through the understanding of finance. Securities markets work most efficiently when brokers, dealers and the like are knowledgeable, professional, skillful, honest, and have sufficient training and resources to perform these functions (Tiruneh, 2012).

As shown in Table 4.4 above, respondents were asked for their level of agreement for the statement that states the shortage of experts in the area of capital market in the country poses a challenge in the establishment of capital market in Ethiopia. Their responses were 58(61.7%) agree, 21(22.3%) neutral, 14(14.9%) strongly agree and 1(1.1%) disagreed as shown in Table 4.4 above. This shows that the majority of the respondents or 72(76.6%) of them agreed that the shortage of experts in the area of capital market in the country poses a challenge in the establishment of capital market in Ethiopia, this result was supported by mean value of 3.90 and standard deviation of 0.64 as shown in Table 4.4 above. This indicated that the shortage of experts in the area of capital market in the country poses a challenge in the establishment of capital market in Ethiopia.

The interviewed respondent gave a similar reaction to the preceding debate, adding that one of the reasons why foreign investors are not drawn to developing nations like Ethiopia is the lack of a competent work force. The scarcity of qualified human resources such as accountants, lawyers, financial analysts, economists, and others could be a major impediment to the smooth operation and management of securities markets in general. In addition, the interviewed respondent stated that universities and other higher learning institutions in Ethiopia do not specialize or excel in certain fields. Almost all are multidisciplinary, with a wide range of study options. The majority of the country's prominent scholars and professionals were trained in foreign colleges in ways that were not tailored to the country's interests or condition. The business and economics education system has also been borrowed from industrialized countries, particularly the United States, and is superficially reflecting actual practice on the ground. All 31 institutions provide comprehensive business and economics courses at the undergraduate level. They aren't explicitly training tomorrow's financial brokers, experts, and dealers (market makers), who will mediate transactions and ensure that markets, remain, balanced. As a result, Ethiopia's capital market establishment faces a problem due to a scarcity of capital market experts in the country. This result is in line with the result described in (Tiruneh, 2012) and Bekele (2021).

4.3.3. The Institutional and Infrastructural Requirements to Establish Capital Markets in Ethiopia

Capital Market has been defined as a market where securities such as shares or equities, bonds, derivatives or other related securities are bought and sold (Tesfaye, 2022). Capital Market Proclamation No 1248/2021 has been issued to regulate the capital market as of July 2021. Ethiopia is in the process of building a market where buyers and sellers trade financial securities such as bonds and equities, following the recent commencement of implementing the Capital Markets Proclamation No 1248/2021. To put the Proclamation into full action, putting in place the necessary institutions, policies, legal instruments (directives and regulations), technologies, and market infrastructure are the vital prerequisites of success.

The National Bank of Ethiopia (NBE) established the Ethiopia Capital Markets Project Implementation Team (CMPIT) to put the Capital Markets Proclamation into action. Until the Prime Minister appoints a Director-General for the Capital Markets Authority, the CMPIT reports to the Governor of the National Bank of Ethiopia (NBE). The capital market proclamation has provided legal and regulatory framework for the establishment of Regulatory institutions, Capital market infrastructures, Capital market service providers, Securities issuance and trading rules, and other institutions and miscellaneous provisions. The result obtained from interviewing respondents about the institutional and infrastructural requirements to establish capital markets in Ethiopia and their objectives were presented below as follows:

4.3.3.1. Regulatory Institutions

Capital Market Proclamation No 1248/2021 allowed the establishment of the regulatory institutions, such as Capital Market Authority and Self-regulatory Organizations.

Ethiopian Capital Market Authority

This Proclamation establishes the Ethiopian Capital Market Authority (ECMA) as an independent Federal Regulatory Authority. One of ECMA's main goals is to ensure that a capital market environment exists in which securities can be issued and traded in an orderly, fair, and efficient way. As a regulatory authority, ECMA issues licenses to anyone who wishes to operate as a security exchange, derivative exchange, security depository and clearing firm, capital market service provider, over-the-counter trading facility, or any other regulated activity falling within its jurisdiction. For violations of the requirements of this Proclamation or the regulations and directives issued hereunder, ECMA will take administrative action. The ECMA regulates and supervises securities trading in primary and secondary markets, as well as the usage of electronic trading platforms for securities. It also recognizes and supervises self-regulatory organizations. The Ethiopian Prime Minister is responsible for ECMA.

Self-Regulatory Organizations

Self-Regulatory Organizations (SROs) are entities recognized by this Proclamation to regulate their own members by adopting and enforcing rules of conduct for fair, ethical, and efficient capital market processes. SRO intends to do business in a way that benefits and protects investors and the general public. SROs that want to be recognized and allowed to function must submit an application to ECMA for approval. The SRO will be declared an SRO entity with delegated powers after it has been accepted. The ECMA will receive the SRO's annual report.

4.3.3.2. Capital Market Infrastructures

Capital Market Proclamation No 1248/2021 allowed the establishment of capital market infrastructures; such as securities exchange and securities depository and clearing company.

The Ethiopian Security Exchange

This Proclamation establishes the Ethiopian Security Exchange (ESE) as a stock company. The ESE's shareholders will be the Ethiopian government on the one side, and private investors, including foreign investors, on the other. The Government's or state-owned entities' total holding of the ESE capital shall not exceed 25%. The ESE will be granted an exchange license if it meets the minimum capital requirement and other ECMA standards. This Proclamation defines a security exchange as a location that establishes, maintains, or provides a market or a facility through which regular offers to sell, buy, or exchange securities are made or accepted.

Private Security Exchange Share Companies

ECMA will grant licenses for other security exchange and trading platforms that are established as share companies.

Security Depository and Clearing Company

Any legal business that provides securities depository, clearing and settlement, and other associated services is referred to as a Security Depository and Clearing Company (SDCC). A share company that meets the ECMA's minimum capital requirement and other standards is awarded the SDCC license. SDCC's principal responsibility is to provide for fair and efficient clearing and settlement of any commercial securities transaction, including repurchase agreements and securities loans. The Central Securities Depository requires public firms and other issuers of securities to register the kind of their securities as well as information on their owners.

Government Securities

The National Bank of Ethiopia (NBE) will have complete autonomy over the establishment, ownership, operation, and regulation of a central security depository for government securities. The ECMA may authorize the NBE to act as a securities depository and clearinghouse for private securities traded on the securities exchange.

4.3.3.3. Capital Market Service Providers

Capital Market Proclamation No 1248/2021 will allow the establishment of capital market service providers and collective investment schemes.

Capital Market Service Providers and Licensing

A capital market services license is necessary for capital market service providers. Securities brokers, investment advisors, collective investment scheme operators, investment banks, securities dealers, custodians, market makers, credit rating agencies, appointed representatives of capital service providers, and anyone else who conducts or participates in any securities activity are all required to be licensed.

Public Offering and Trading of Securities

Prior to the offer or placement of a publicly traded security, ECMA must register it. The issuer of securities is required to prepare a prospectus, which must be approved by the ECMA. In this Proclamation, a 'issuer' is defined as a person who issues or seeks to issue any security. The government, a firm, or any legal body that sells securities to the public are examples of these. Securities issued privately may not be traded publicly. Only asset-backed securities issued by a special purpose institution are eligible for sale.

Collective Investment Schemes

A Collective Investment Scheme (CIS) is an arrangement set up to allow people to participate in or earn profits or revenue from the purchase, holding, management, or sale of securities or any other property, or a sum paid out of such profits or income. The assets of the plan are administered by a person who is in charge of the scheme's assets and client accounts. Participants in the arrangement do not have day-to-day control over the asset management of the scheme. Under the Commercial Code, CIS can be formed as investment firms such as mutual funds, limited partnerships, or other structures. ECMA requires that the CIS be registered. Operators of collective investment schemes can administer CIS. The Operator is a legal body that is responsible for the overall management and performance of the CIS's functions.

4.3.3.4. Securities Issuance and Trading Rules

Capital Market Proclamation No 1248/2021 will allow the establishment of capital market securities issuance and trading rules, including disclosure requirements and accounting standards and their enforces. A transparency and disclosure requirement for issuers includes:

- A prospectus must be issued by an issuer of securities for public offering and approved by the Authority.
- The prospectus must be accurate, sufficiently clear, comprehensive, reasonably specific, and timely.
- Accounting standards used by issuers to prepare financial statements must be of a high and internationally acceptable quality.

Issuers must continue to report comprehensive, accurate, and timely financial results, risk, and other information that is relevant to investors' decisions under ongoing disclosure responsibilities.

4.3.3.5. Prohibited Trading Practices

The legal and regulatory framework is intended to detect and deter manipulation and other unfair trading practices. Some of these prohibited trading practices include: insider trading, market manipulation, false trading and others. If the securities are price sensitive in respect to the inside information, a person with inside information is barred from trading in securities. If a person is in possession of inside information as a director, employee, or shareholder of a securities issuer, or has access to information through his or her employment, office, or profession, or the direct or indirect source of the information falls under any of the persons above, he or she is considered an insider.

Market manipulation, false trading, fraudulent transactions, use of manipulative devices, false or misleading statements, front running, and other trading practices or restrictions on the selling of securities are examples of improper trading practices in the capital market that are subject to capital market offense. A violation of the country's criminal legislation is regarded a capital market offense. As a result, every offense or act of unlawful trade practice is punishable by a fine of up to 1 million birr and a sentence of up to 15 years in jail.

4.3.3.6. Other Institutions

Capital Market Proclamation No 1248/2021 will allow the establishment of some other institutions like Capital Market Tribunal and Compensation Fund providers.

Capital Market Tribunal

This Proclamation establishes the Capital Market Tribunal to hear challenges against ECMA rulings. A party that is unhappy with the tribunal's conclusions may file a notice of appeal to the Federal High Court on matters of law only within 30 days of receiving notice of the decision.

Compensation Fund

The purpose of the compensation fund is to compensate investors who have lost money as a result of a capital market service provider or securities exchange failing to meet its contractual duties, as well as to pay recipients from unclaimed dividends when they emerge. The compensation fund's management, investment policy, minimum quantity of fund, and other issues will be defined by Council of Ministers rule.

4.3.3.7. Miscellaneous Provisions and Penalties for Violations

Capital Market Proclamation No 1248/2021 will allow the establishment of miscellaneous provisions and penalties for violations and its enforcers.

- **Criminal Liability:** Anyone whose actions or activities violate any provision of the Proclamation or its implementing directives will be penalized with imprisonment (minimum 5 years, maximum 20 years) and monetary penalties (with minimum of 50,000 and maximum 2.5 million birr).
- **Administrative Measure**: The Authority may revoke or suspend a license, order the dismissal or suspension of senior personnel or the board of directors of a licensed person, and/or impose a fine on a person who violates the provisions of this Proclamation, or the regulations or directives issued under this Proclamation, based on its supervision or investigation report.
- **Settlement of Disputes**: Mediation will be used to settle disputes between parties involved in the capital market over any civil action arising under this Proclamation. If a disagreement cannot be addressed through mediation, it will be resolved through arbitration. The parties must accept the arbitral award as final and binding.

4.3.3.8. Technological Infrastructures

Technology Infrastructures: A technology that ensures secure financial transactions or markets among banks and depositors through security instruments. State-of-art Communication Network which would facilitate good networking within the banking system and ensure free flow of communication among investors to lead the goal of efficient market operations. This is one of the urgent and greatest necessities done by Ethio-Telecom like the implementation of 5G network in Addis Ababa. Better and more reliable communication network is needed for expansion of banking, insurance network and stock trading activities

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

This chapter consists of the conclusions drawn from the analysis part and the recommendations forwarded by the researcher in order to improve the practice of Capital Market Establishment in Ethiopia.

5.1. Conclusions

The main aim of this study was to investigate the Opportunities and Challenges of Capital Market Establishment in Ethiopia. On the basis of this study, the following conclusions were drawn:

Opportunities of Establishing Capital Market in Ethiopia to Investors

The formation of a capital market in Ethiopia would offer investors with an option to buy and sell their shares in a ready market. Investors, mega industries, and service providers all participate in the capital market and these companies require more capital to develop their operations and hire more workers. As a result of the availability of a legal and regulatory framework that protects investors, the formation of capital markets in Ethiopia will help to attract more domestic and foreign investors.

Opportunities of Establishing Capital Market in Ethiopia to the Country

The Ethiopian Capital Market Authority was established with the approval of the "Capital Market Proclamation No. 1248/2021," which established a legal infrastructure and governance system to protect investors' and creditors' rights and ensure transparency in the management of listed companies.

The Ethiopian 'Capital Market Proclamation No. 1248/2021' established a legal framework for the regulation and supervision of the capital market in order to ensure the market's fairness, integrity, efficiency, and protection of investors, resulting in a true and fair price of the country's shares companies. Because capital markets provide investment opportunities and risk management capabilities, capital markets can provide more appealing investment prospects in terms of return than bank savings, but at a higher risk.
Capital market authorities can guarantee that corporations that have used capital markets to meet their financing needs disclose material information or accounting records in a clear, transparent, timely, and full manner.

The establishment of a capital market in Ethiopia can aid the government's privatization efforts by selling shares on the capital market that will be established, or the government of Ethiopia will have a capital market that can be used to sell shares of public organizations such as Ethio-Telecom, Ethiopian Airlines, and others that are in the process of being privatized.

Challenges of Establishing Capital Market in Ethiopia

- The Ethiopia's FDI was low compared to other countries in Africa, currently it is becoming even lower because of the challenges the country has faced, from the government's law enforcement operation in Tigray regional state, drought, the effects of Russia and Ukraine conflict, the impact of COVID-19, and polarized and misleading international media reports were affecting the investment sector and also the war against the rebels of "Shene" in Oromiya Regional State also affecting the FDI in Ethiopia.
- The Macroeconomic instability of the country is posing a challenge in the establishment of capital market in Ethiopia.

- Low Level of Awareness of the Society about Capital Markets The public is unaware about what capital markets are, which will result insufficient potential market participants, hence creating a barrier to the establishment of capital market in the country. Therefore low level of awareness of the society about capital markets in the country poses a challenge in the establishment of capital market in Ethiopia
- The presence of corruption and lack of good governance in the country is posing a challenge in the establishment of capital market in Ethiopia.
- Inflation rate in Ethiopia's economy is posing a challenge in the establishment of capital market in the country.
- Low Level of Saving Rate in the Country The low level of saving rate in the country, due to poor saving culture and weak saving capacity resulted from the country's low per capita income of its population. The low level of saving rate in the country poses a challenge in the establishment of capital market in Ethiopia by limiting the money available for investors to invest in the market.
- Shortage of Experts in the Area of Capital Market A scarcity of qualified human resources, such as accountants, lawyers, financial analysts, economists, and others, could be a major impediment to the smooth operation and management of securities markets in general. The shortage of experts in the area of capital market in the country poses a challenge in the establishment of capital market in Ethiopia.
- The Macroeconomic instability of the country is posing a challenge in the establishment of capital market in Ethiopia.

- The presence of corruption and lack of good governance in the country is posing a challenge in the establishment of capital market in Ethiopia.
- Inflation rate in Ethiopia's economy is posing a challenge in the establishment of capital market in the country.

5.2. Recommendations

This study was aimed to investigate the assessment of Opportunities and Challenges of Capital Market Establishment in Ethiopia. Based on the findings and conclusions reached, the researcher forwarded the following recommendations, which may have managerial implications:

- The result of the study indicated that there is a low level of awareness of the society about capital markets in the country. Therefore the researcher suggested that the government of Ethiopia should design an awareness creation strategy to the society about the purpose and benefits of the establishment of capital market in Ethiopia.

- By properly applying the approved capital market proclamation or 'Capital Market Proclamation No. 1248/2021' will help to avoid the poor corporate governance practices and adopt a legal framework for the regulation and supervision of the capital market to ensure the fairness, integrity, and efficiency of the market and protect investors; and necessary to adopt a legal framework for effective monitoring and surveillance of the capital market to detect, mitigate, and prevent poor corporate governance practices to the country's financial market.

- The low level of saving rate in the country poses a challenge in the establishment of capital market in Ethiopia therefore there should be an awareness creation program to increase the saving rate in the country which will increase the money available for investors to invest in the market.

- The researcher also suggests that the government need to develop a medium- to long-term institutional development plan, backed by appropriate national policies, to create contractual saving institutions as well as legal, governance, accounting, and audit infrastructures to serve as a solid foundation for capital market development. After that, the country can construct a full-fledged strong stock exchange market system to augment the country's bank-based financial system for long-term economic development.

- The result of the study indicated that there is shortage of experts in the area of capital market, therefore the researcher recommended that the government of Ethiopia need to refresh its educational policies and summon on higher learning institutions to introduce specializations to produce innovative and skillful professionals and experts to surface a ground for the establishment of vibrant and economically worthy of capital market.
- A coherent and integrated strategies to market based on providing timely information to international investors would help attract direct and indirect investment.
- Improving the legal framework by enacting a capital market law, knowing the basic principles and policies in clear and unambiguous standard.

5.3. Directions for Further Studies

The research conducted in this study has led to some useful results and conclusions on Opportunities and Challenges of Capital Market Establishment in Ethiopia. However it has also uncovered many areas that need additional study. The purpose of this section is therefore to identify and discuss the need for further research in similar topic. From methodological point of view, the scope of the study was confined to samples taken from officials and representatives of the National Bank of Ethiopia, Ministry of Trade, Ethiopian Investment Agency, Ethiopian Commodities Exchange (ECX), University Instructors and Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) and others in Addis Ababa. Therefore it is interesting to replicate the study using nation-wide samples and compare results to provide better understanding of this topic in the wider Ethiopian context. The chosen methodology was descriptive study design due to novelty of the topic under the study in Ethiopia. So findings are restricted by limitations of the chosen methodology. Future research of explanatory and conformity nature is needed to develop further findings. The other limitation of this study is that all primary data was obtained from respondents through cross-sectional study using questionnaire and interview. For this reason, it is recommended that future studies should embark on longitudinal research by considering panel data that provides more valuable information for theory development and refinement in the area of Capital Market in Ethiopia the study using quantitative financial data can result in useful findings for users of the study. Finally, the study was limited to these variables and it is recommended for future research to include many other factors that affect the Opportunities and Challenges of Capital Market Establishment in Ethiopia.

REFERENCES

Adrian, T., Colla, P. & Shin, H. S. (2012). Which Financial Frictions? Parsing the Evidence from the Financial Crisis of 2007 to 2009. NBER.

African Economy Outlook (AEO) (2022). Ethiopia: What to look out for in 2022.

African Union (2018). African Union Convention on Preventing and Combating Corruption: Ratification Status.

Alemneh, A. K. (2015). Is Ethiopia Ready to Institute a Stock Exchange Market? Assessment on Establishing Stock Exchange Market in Ethiopia. *A Master's Thesis of AAU*.

Alotaibi, F., Yusoff, R. & Islam, R. (2013). Assessing the Impact of Total Quality Management Practices and Quality Culture with Competitiveness of Saudi Contractors. *American Journal of Applied Sciences,* 10(6): 638-645.

Asuri, K. S. & Ejigu, L. (2014). Identifying Opportunities, Challenges and Infrastructure Requirements for Establishing Secondary Markets in Ethiopia. *International Journal of Research in Commerce, IT & Management,* 2(12) (December)

Bairu, A. T. (2018). Why Ethiopia Does Not Introduce Stock Market? Policy Reason or Real Condition: Systematic Review. *International Journal of Creative Research Thoughts (IJCRT),* 6(2): 778-787.

Bakaert, G. & Harvey, C. (1995). *Capital Market: An Engine for Economic Growth*. USA: Stanford University.

Bats, J. & Houben, A. (2017). Bank-Based Versus Market-Based Financing: Implications for Systemic Risk. *DNB Working Paper,* No. 577/ December 2017.

Beck, T. & Levine, R. (2002). Industry Growth and Capital Accumulation: Does Having a Market- or Bank-Based System Matter? *Journal of Financial Economics,* 64(2): 147-180.

Beck, T. & Ross Levine, R. (2004). Stock Markets, Banks and Growth: Panel Evidence. *Journal of Banking and Finance,* 28, 423-442.

Becker, B. & Ivashina, V. (2014). Cyclicality of Credit Supply: Firm Level Evidence. *Journal of Monetary Economics*, 62, 76-93.

Bekaert, G., Harvey, C. H. & Lundblad, C. (2005). Does Financial Liberalization Spur Growth? *Journal of Financial Economics,* 77(1): 3-55.

Bekele, T. G. (2021). The Impact of Establishing Capital Market on Ethiopian Commercial Banks. *New Challenges in Accounting and Finance,* 2021(6): 50 – 62.

BIS, FSB & IMF (2009). Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations. Report to the G-20 Finance Ministers and Central Bank Governors.

Black, H. C. (1991). *Black's Law Dictionary,* (6th ed.). St. Paul: West Publishing Co.

Bohnstedt, A., Hannig, A. & Odendall, R. (2000). Capital Market Development in Uganda-Private Sector Opinions on Listing. Bank of Uganda-German Technical Cooperation 2000.

Boyd, J. H. & Smith, B. D. (1998). The Evolution of Debt and Equity Markets in Economic Development. Economic Theory 12, 519-60.

Burger, J .D. & Warnock, F. E. (2006). Local Currency Bond Markets. IMF Staff Papers, 53(1): 133-146.

Burton, G. M. (1996). Efficient Market Hypothesis. *The New Palgrave: A Dictionary of Economics*, 2, 120–23.

Chan, K. C.; Gup, B. E. & Pan, M. (2003). International Stock Market Efficiency and Integration: A Study of Eighteen Nations. *Journal of Business Finance & Accounting,* 24 (6): 803–813.

Chava, S. & Purnanandam, A. (2011). The Effect of Banking Crisis on Bank-Dependent Borrowers. *Journal of Financial Economics*, 99(1): 116-135.

Cochran, W. (1977). *Sampling Techniques* (3rd ed.). New York: Jhon Wiley & Sons.

Creswell, J. (2009). *Business Research Methods: Qualitative, Quantitative, and Mixed Methods Approaches* (2nd ed.). California: Sage Publisher.

Crouzet, N. (2018). Aggregate Implications of Corporate Debt Choices. *The Review of Economic Studies,* 85(3): 1635-1682.

Dawit, A. (2019). Ethiopia Needs More Infrastructures for Stock Market: Panel Says. HST Consulting and Capital Newspaper at the United Nation Economic Commission for Africa (UNECA).

Demirgüç-Kunt, A. & Levine, R., (2001c). Financial Structures and Economic Growth: A Cross-Country Comparison of Banks, Markets, and Development. MIT Press, Cambridge, MA.

Demirgüç-Kunt, A. & Maksimovic, V. (2002). Funding Growth in Bank-Based and Market-Based Financial System: Evidence from Firm Level Data. *Journal of Financial Economics,* 65(3): 337-363.

Edosa,J,(2014). Legal Aspects of Stock Market Development in Ethiopia: Comments on Challenges and Prospects. Mizan Law Review, Vol. 8(2), PP.439-454. https://www.researchgate.net/publication/277968600_Legal_Aspects_of_Stock_Market_Development_in_Ethiopia_Comments_on_Challenges_and_Prospects

El Wassal, K. A. (2013). The Development of Stock Markets: In Search of a Theory. International *Journal of Economics and Financial Issues,* 3(3): 606-624.

Ennew, C. (2008). Measuring trust in retail banking in China. *Journal of Marketing*

Erb, C.B., Harvey, C.R., & Viskanta, T. E. (1996). Policy Risk, Economic Risk and Financial Risk. *Financial Analysts Journal,* 3, 29-46.

Erchafo, G. (2001). Monetary Policy Instruments in Ethiopia (Economic Research Department, National Bank of Ethiopia) pp. 1-18.

Ethiopian News Agency (2019). August 29/2019 News

Etienne, M. & Vincent, G. (2008). Understanding the Growth in Emerging Stock Markets. *Journal of Emerging Market Finance,* 4(3): 227–261.

Fernando, A. C. (2006). *Corporate Governance: Principles, Policies, and Practices.* London: Pearson Education.

Fredholm, J. & Taghavi-Awal, B. (2006). Capital Markets in Developing Countries: A Model for Capital Market Diagnostics, With a Field Study Implementation in Georgia. *Master Thesis of School of Business of Stockholm University, Sweden*.

Gambacorta, L., Yang, Y. & Tsatsaronis, K. (2014). Financial Structure and Growth. *BIS Quarterly Review,* 21-35.

García, V. F., & Liu, L. (1999), Macroeconomic Determinants of Stock Market Development. *Journal of Applied Economics*, 4, 29–59.

Gitman, L. J. (2007). Principles of Managerial Finance, Web Chapter on "Financial Institutions and Markets" (downloaded in March 2021).

Gomez L. (2013). Financial Markets, Institutions and Financial Service. PHI Learning Private Limited Delhi-110092.

Granger, M., Clive W. J. & Morgenstern, O. (2007). Spectral Analysis of New York Stock Market Prices. *Kyklos* 16 (1): 1–27.

Green, S. (2003). China's Stock market: A Guide to its Progress, Players and Prospects (London: The Economist Newspaper Ltd), p. 3.

Greenspan, A. (1999). Do Efficient Financial Markets Mitigate Financial Crises? Before the 1999 Financial Markets Conference of the Federal Reserve Bank of Atlanta, Sea Island, Georgia.

Guiso, L. & Jappelli, T. (2005). Awareness and Stock Market Participation. University of Sassari.

International Financial Corporation (2019). Report on Creating Markets in Ethiopia

International Organization of Securities Commissions (IOSCO) (2020). Development of Emerging Capital Markets: Opportunities, Challenges and Solutions.

Khan, M. & Arshad, M. (1986). Conformity with Large Speculators: A Test of Efficiency in the Grain Futures Market. *Atlantic Economic Journal* 14 (3): 51–55.

Koldertsavo, C. H. (2009). The Role of Stock Exchanges in Corporate Governance. Financial Market Trends (OECD), p. 5.

Kumo, W. L. (2008). Stock Exchange in Africa: Prospects and Challenges. afroarticles.com. Retrieved from http://www.afroarticles.com/article-dashboard/Article/Stock-Exchangein-Africa--Prospects-and-Challenges/146881

Kumulachew, T. (2011). Regulation of Initial Public Offering of Shares in Ethiopia: Critical Issues and Challenges. *AAU LLM Thesis.*

La Porta, R., Lopez de Silanes, F. & Shleifer, A. (2006), What Works in Securities Laws?. *The Journal of Finance,* 61(2): 1-32.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny, R.W. (2002), Investor Protection and Corporate Valuation. *The Journal of Finance*, 57(3): 1147–70.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny, R.W. (2000), Investor Protection and Corporate Governance. *Journal of Financial Economics, 58*(1–2): 3–27.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny, R.W. (1999), Investor Protection: Origins, Consequences, and Reform. *Financial Sector Discussion Paper No. 1,* Washington, D.C: World Bank.

Langfield, S. & Pagano, M. (2016). Bank Bias in Europe: Effects on Systemic Risk and Growth. *Economic Policy,* 31, 51-106.

Levine, R. (1997). Stock Markets, Economic Development and Capital Control Liberalization. Perspective, Investment Company Institute, Occasional Papers, 3(5).

Levine, R. (2002). Bank-Based or Market-Based Financial Systems: Which is better? *Journal of Financial Intermediation*, 11(4): 398–428.

Levine, R. & Servos, S. (1996). Stock Market Development and Long-run Growth. *The World Bank Economic Review,* 10(2): 323-340).

Levine, R. & Zervos, S. (1998). Stock Markets, Banks and Economic Growth. *American Economic Review*, 88(3): 537–58.

Lintari, M. J. (2011). Awareness, Trust and Stock Market efficiency: The Case of Ugandan Securities Market. Makerere University, Uganda

Madura, J. (2014). Financial Markets and Institutions. Nelson Education.

Massele, J., Darroux, C., Jonathan, H. & Fengju, X. (2013). Challenges faced by Dares-Salaam Stock Exchange Market in Tanzania. *Research Journal of Finance and Accounting,* 4(15): 2013.

Mengesha, Y. (1998). Prospects for a Securities Market in Ethiopia. *Ethiopian Journal of Economics*, VII (1): 91.

Mishkin, F. (2001). Financial Policies and the Prevention of Financial Crises in Emerging Market Countries. *NBER Working Paper* No. 8087, Cambridge: NBER.

Mishkin, F. S. (2004). The Economics of Money, Banking, and Financial Markets 7th ed. (The Addison-Wesley Series in Economics, p. 5.

Mohammed, A. (2010). Who Should Take Lead in Establishing Ethiopia's Stock Exchange? Addis Fortune. Retrieved from: www.addisfortune.com/Vol%2010%20No%20513%20Archive/ecconomiccommentary.

Mugenda, O. L., & Mugenda, A. G. (2003). *Research Methods: Qualitative and Quantitative Approaches.* Nairobi: African Centre for Technology Studies (ACTS) Press.

Mulatu, G. (2016) Challenges and Prospects of Establishing Stock Market in Ethiopia. *Doctoral Dissertation of St. Mary's University.*

Muluken, Y. (2021). The Journey Back to the Stock Market: An In-Depth Review of the Capital Market Proclamation**,** January 25, 2021.

Mulunesh, G. (2019). Prospects and Challenges of Establishing Stock Market in Ethiopia. *Master Thesis in Accounting and Finance of AAU.*

Murinde, V. (2006). Capital Markets: Roles and Challenges. African Development Bank and the African Economic Research Consortium. Tunis, Tunisia November 2006

Musonera, E. (2008). Establishing a Stock Exchange in Emerging Economies: Challenges and Opportunities. *Journal of International Management Studies* 3(2), August 2008.

National Bank of Ethiopia (NBE). (2019). 2018/19 Annual Report.

Ndikumana, L. (2001). Financial Market and Economic Development in Africa. Political Economy Research Institute, University of Massachusetts, Working paper series, No. 17

Osei, A. (1998). Analysis of Factors Affecting the Development of an Emerging Capital Market: The Case of the Ghana Stock Market. *African Economic Research Consortium Research paper. 76. Nairobi, March 1998.*

Osei, A. (2002). Asset Pricing and Information Efficiency of the Ghana Stock Market. AERC Research Paper 115. Nairobi, Kenya

OTCQX (2011). Ethiopian Potash Applies for Listing on the OTCQX. Ethiopian Potash Corporation, a Canadian Company Based in Toronto, Ontario, and Addis Ababa.

Pagano, M., Langfield S., Acharya V., Boot A., Brunnermeier M., Buch C., Hellwig M., Sapir A., & Van Den Burg L., (2014). Is Europe Overbanked? The European Systemic Risk Board's Advisory Scientific Committee report No 4.

Rahman, K. (2018). Overview of Corruption and Anti-Corruption in Ethiopia. The U4 Anti-Corruption Helpdesk and Transparency International (TI) Berlin, Germany.

Ratner, D. (1980). *Securities Regulation Material for a Basic Course*, (2nd Ed), USA: West Publishing Co. p. 2.

Rose, P. S. (1986). *Money and Capital markets: The Financial System in the Economy* (2nd ed.). p. 556.

Rose, P. S. (2001). *Money and Capital Markets: Financial Institutions and Instruments in a Global Marketplace*, (8th ed.). New York: McGrawHill-Irwin

Ruecker, R. & Shiferaw, M. (2011). Market Potential Assessment and Road Map Development for the Establishment of Capital Market in Ethiopia. Private Sector Development Hub/Addis Ababa Chamber of Commerce and Sectoral Associations, p. 1

Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research Methods for Business Students* (5th ed.). London: Pearson Education Limited.

Solomon, A. (2011): Financial Market Development, Policy and Regulation: The International Experience and Ethiopia's Need for Further Reform.

Steil, B. (2001). Creating Securities markets in Developing countries, International Finance. 4(2).

Tadesse, N. (2000). Major Problems Associated with Private Limited Companies in Ethiopia: The Law and the Practice. LLM Thesis, AAU, p. 97.

Teklay, A. (2011). Should Ethiopia consider establishing of stock exchange?. Addis Ababa, Ethiopia

Teklehaimanot, M. L. (2014). Is Ethiopia Ready to Commence Capital Market? Analysis of Potential Beddings, Constraints and the Dubious. *International Journal of African and Asian Studies - An Open Access International Journal* Vol. 3.

Tesfaye, D. (2022). How Capital Markets are Formed and Regulated in Ethiopia? March 13, 2022. www.https//dmethiolawyers.com.

Tessema, A. (2003). Prospects and Challenges for Developing Securities Markets in Ethiopia: An Analytical Review. R&D Management, Blackwell Publishing Ltd, USA, 15(1).

The Economic Times (2021). English Edition, 22 August, 2021, E-Paper

Tiruneh, L. (2012). Establishing Financial Markets in Ethiopia: the Environmental Foundation, Challenges and Opportunities. *Journal of Business and Administrative Studies,* 4(1): 2

Trading Economics (2022). Ethiopia Foreign Direct Investment of 2021. www. https://tradingeconomics.com/

Transparency International (TI) (2018). Corruption Perceptions Index of Ethiopia in 2017.

Tsegaye, E. (2012). Ethiopian Stock Exchange Imperative. Addis Fortune. Retrieved from: http://addisfortune.com/Vol_12_No_621_Archive/Ethiopian%20Stock%20Exchange%20Imperative.html

Von Pischke, J. D., (1968), Share and Share Trading in Addis Ababa, (Haile Selassie I University, Addis Ababa.

Wei, Y. (2005). The Development of the Securities Market and Regulation in China. *Loyola of Los Angeles International and Comparative Law Review,* 27: 486.

Woldesenbet L. (2008)/ Beyond Banking: African Stock Markets African Finance for the 21st century. *The Journal of International Management Studies, 3(2).*

Woldegiorgis, A. (2022). Ethiopia: Establishment of a Capital Market Remains in Limbo despite Reform Measures. *The Ethiopian Herald, 10 March, 2022.*

World Bank (2001). Finance for Growth: Policy Choices in a Volatile World. A World Bank Policy Research Report, Washington D.C.: World Bank.

World Bank (2018). Worldwide Governance Indicators in Ethiopia.

World Bank Group (2019). Doing Business.

The World Bank Group (2020). Capital Markets Development: A Primer for Policymakers. Washington, DC 20433

World Bank. (2018). The Inescapable Manufacturing-Services Nexus: Exploring the potential of distribution services. Ethiopia Economic Update.

World Development Indicators (2014). World Bank accessed from http://data.worldbank.org /sites/default/files/wdi-2014-book.pdf

World Economic Forum (2016). Accelerating Capital Markets Development in Emerging Economies: Country Case Studies.

World Federation of Exchanges (2017). The Role of Stock Exchanges in Fostering Economic Growth and Sustainable Development.

World-Stock-Exchanges (2012). World-Stock-Exchanges. Retrieved from http://www.world-stock-exchanges.net/latin.html.2012

Yartey C. A. & Adjasi A., (2007). Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges, IMF Working Paper, WP/07/209.

Yitayew A. (2006). An alternative to Term-Loan Financing on the Horizon, its development dubious: securities market, the missing link. Ethiopian Journal of Accounting and Finance, 1(1): 33.

Yewondwossen M. (2013). National Bank of Ethiopia Looks into Stock Market http://www.capitalethiopia.com/index.php?view=article&id=3635:nbe-looks-intostock-market-&format=pdf

Zena H. (2021). Analysis of the Need for Stock Market in Ethiopia. *International Journal of Economics and Finance,* 13(2): 2021.

APPENDIX

Appendix 1: Research Questionnaire

St.MARY University

College of Business and Economics

Department of Accounting and Finance

Dear respondent,

My name is Dawit Habte, St Marry University student studying Accounting and Finance, will perform this research as part of my master's degree requirements. I am now working on a study called "Opportunities and Challenges of Capital Market Establishment in Ethiopia."

I would like to congratulate you on being one of the most qualified and trustworthy responders chosen for this survey.

Please assist me in providing accurate and thorough information so that I can offer a representative finding on the current situation of Ethiopia's Capital Market Establishment Opportunities and Challenges.

The inquiry is fully anonymous, and your participation is absolutely voluntary.

Finally, I would like to assure you that any information you share with me will be kept private and utilized just for scholarly purposes. Individual comments will not be identifiable, and the identities of those who respond will not be published or disseminated.

Regards, Sincerely

Dawit Habte

Instructions

1. There is no need to write your name.
2. For the five point Likert scale type statements put a check mark (√) in the appropriate block and multiple choice questions indicate your answers by encircling the letter of your choice.

N. B. You can contact the researcher with the following address if you have any more comments, clarifications, information,

Name: Dawit Habte

Mobile: +251949618989

E-mail: d.habta21@gmail.com

Thank you in advance for your important assistance and time commitment.

Part I: Demographic Characteristics of the Respondents

Please encircle the letter of your choice and write your answer in the space provided.

1. Gender
   a. Male
   b. Female
2. Age
   a. Less than 25 years
   b. 26 – 35 years
   c. 36 – 45 years
   d. 46 – 55 years
   e. Above 56 years
3. Educational Qualification
   a. Diploma
   b. First Degree
   c. Master’s Degree and above

Part II: Opportunities of Establishing Capital Market in Ethiopia

The Opportunities of Establishing Capital Market in Ethiopia are listed below. Please indicate the degree to which these Opportunities of Establishing Capital Market in Ethiopia will happen in your organization. After you read each of the opportunities of establishing capital market, evaluate them in relation to your organization and then put a tick mark (√) under the choices below. Where, 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

Opportunities of Establishing Capital Market in Ethiopia

S. No.	Opportunities to Investors	Level of Agreement				
	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	It provides a ready market for investors to buy and sell their shares					
2	It serve as an alternate source of finance					
3	It provides protection for investors which stems from sets of rules of regulators					
4	It helps to attract more domestic and foreign investors					

S. No.	Opportunities to the Country	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
5	It builds public trust and confidence to invest in share companies					

6	It contributes to country's economic development					
7	It necessitates the determination of true and fair price of shares companies					
8	It helps to attract more domestic and foreign investors					
9	Promote efficient financial system					
10	Allow de-concentration of ownership					
11	Improve accounting and auditing standards					
12	Provide effective tools for monetary and fiscal policy					
13	Help privatization efforts made by the government					

Comments,

Please be include any additional Opportunities of Establishing Capital Market in Ethiopia that is not incorporated in the above listed statement as you believe that practical Establishment of Capital Market in Ethiopia.

____

____

______

Part III: Challenges of Establishing Capital Market in Ethiopia

The challenges of establishing capital market in Ethiopia are listed below. Please indicate the degree to which these factors affect the establishment of capital market in Ethiopia. After you read each of these factors, evaluate them in relation to your organization and then put a tick mark (√) under the choices below. Where, 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

Challenges of Establishing Capital Market in Ethiopia

S. No.	**Challenges of Establishing Capital Market**	**Level of Agreement**				
	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Low level foreign direct investment					
2	Macroeconomic conditions of the country					
3	Awareness of the society about capital markets					
4	Corruption and lack of good governance					
5	Low level of corporate governance					
6	Lack of technological infrastructures					

7	Accounting and auditing standards of the country					
8	The high impact of inflation rate					
9	Low level of saving rate in the country					
10	Shortage of experts in the area of capital market					

Comments,

Please be include any additional Challenges of Establishing Capital Market in Ethiopia that is not incorporated in the above listed statement as you believe that practical Establishment of Capital Market in Ethiopia.

____

____

____

Appendix 2: An Interview Guide

St. Marry University

College of Business and Economics

Department of Accounting and Finance

Dear Sir/Madam,

The main objective of this interview is to explore information regarding assessment of the opportunities and challenges of capital market implementation in Ethiopia and to have an in-depth response to the research problem in addition to the questionnaires distributed to shareholders, managers and promoters of share companies. And also, employees of Addis Ababa Chamber of Commerce and Sectoral Association, Ministry of Finance and Economic Development, National Bank of Ethiopia, Private Banks, Insurance Companies, and other credible sources. The interview will be made with selected managers and owners and also with directors and team managers of the aforementioned companies who are familiar with the issue. The information you provide in response to the questions in the interview will be used as part of the data needed for a study on "Assessment of the Opportunities and Challenges of Capital Market Establishment in Ethiopia".

I would like to assure you that the information you provide will be accessible only for academic purpose. Your involvement is regarded as a great input to the quality of the research results. Thus, I believe that you will enlarge your contribution by participating in the study.

Thank you very much for your valuable time and thoughtful response.

Kind regards,

Dawit Habte

N. B. If you have any additional comments, clarifications, information, and suggestions, you can contact the researcher in the following addresses:

Name Dawit Habte

Mobile: +251949618989

E-mail: d.habta21@gmail.com Thank you in advance for your invaluable cooperation and dedicating your time.

Interview Discussions Lists with Target Organizations

The checklists are prepared for each target organizations (listed from 1 to 9), based on area of involvement subject to directly or indirectly interrelated to establish capital market.

1. **Government commitment**
    - Appropriate and rewarding economic and monetary policies
    - Create legal and/or regulatory infrastructure to support the creation of a capital market
    - Creating a financial services regulatory authority (responsible for capital market regulation, assuring market confidence, financial stability, consumer protection and the reduction of financial crime).
    - The formation of capital markets strategy
    - Corporate governance (transparency, information disclosure)
    - Legislation allowing social security funds to invest in productive businesses
    - Tax advantages for securities market players • Credit rating and credit rating institution
2. **Macroeconomic conditions,**
    - The country's economic situation
    - Inflation rates over the last few years
    - Economic growth
    - Current exchange rates
    - Current GDP growth
3. **Financial sector Development**
    - Development of the financial and non-financial sectors
    - Bank capital and liquidity to provide long-term loans and collect debts, adequate branch network, efficient service delivery, various financing products, inter-bank lending, efficient use of technology to provide services, efficient and experienced staffs
    - Long-term financing: NBE, commercial banks, insurance companies, and pension funds
    - Banking goods and services, as well as outreach and money market instruments
    - Savings and financial literacy levels
    - Current market circumstances (stock and bond markets)
4. **Corruption and Transparency**
    - Public company annual accounting report preparation and presentation
    - Corruption levels
    - Corruption hotspots in the country
    - Current anti-corruption legislation
5. **Business Environment**
    - Ethiopia's Business Environment: (starting a business, hiring workers, enforcing contracts, registering property, obtaining credit, protecting investors, paying taxes, closing a business, and good governance)
    - Types of business organizations established in Ethiopia
    - Foreign investors' interest in Ethiopia

- Ownership of business enterprises
- Availability of credits and foreign exchange

6. **Legal and regulatory infrastructure**
    - The securities regulator and enforcement
    - Ethiopian accounting, auditing, and reporting standards vs. international standards
    - Acquisition, merger, bankruptcy, and insolvency legislation
    - Legal system that protects investors' and stakeholders' interests in share trading
    - Case arbitration, litigation, and negotiation.
    - Investor dispute resolution
    - Accounting and auditing profession standards and code of ethics

7. **Infrastructure development**
    - The country's infrastructure development (roads, transportation, water, and light)
    - A cutting-edge communication network promotes networking
    - Electronic trading and settlement infrastructure
    - Real-time market data availability
    - Geographical coverage (network capacity)

8. **Current market conditions**
    - Ethiopian stock exchange
    - Tax breaks for security market participants
    - Promoters of initial public offerings (IPOs)
    - Potential important players in the formation of a stock market
    - Bond/stock market investors: pension funds and insurance firms

9. What are the Institutional and Infrastructural Requirements to Establish Capital Markets in Ethiopia and its current status?