



**ADDIS ABABA UNIVERSITY**  
**POSTGRADUATE PROGRAM**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**Department of Business Administration**

**ASSESSING THE INFRASTRUCTURE READINESS  
FOR CAPITAL MARKETS DEVELOPMENT IN  
ETHIOPIA: OPPORTUNITIES AND CHALLENGES**

**By**

**Bezawit Abrham Melesse**

**January, 2025**

**Addis Ababa, Ethiopia**

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**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF  
ADDIS ABABA UNIVERSITY IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF MASTER OF ART IN  
BUSINESS ADMINISTRATION**

**Advisor: Kalifa (PhD)**

**January, 2025**  
**Addis Ababa, Ethiopia**

## DECLARATION

I, **Bezawit Abrham Melesse**, declare that this thesis is my original work, prepared under the supervision of **Kalifa (PhD)**. This thesis was completed through my efforts. In addition, I have presented my original research work. Wherever the contributions of others are included, they are fully and clearly acknowledged. This thesis was submitted in partial fulfillment of the requirements for the Masters of Art Degree in Business Administration.

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Student name



Signature

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Date

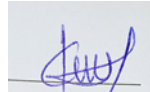
## STATEMENT OF CERTIFICATION

This is to certify the thesis prepared by Bezawit Abrham Melesse, entitled “Assessing the infrastructure readiness for capital markets development in Ethiopia: opportunities and challenges” and submitted to partial fulfillment of the requirement for the degree of Masters of Art Degree in Business Administration complies with the regulation of the University and meets the accepted standards concerning originality and quality.

**Confirmed by:**

**Kalifa (PhD)**

Advisor name



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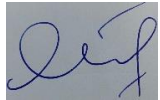
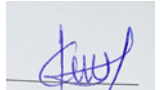
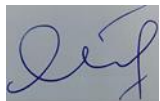
APPROVAL SHEET

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**Department of Business Administration**

**Assessing the infrastructure readiness for capital markets development  
in Ethiopia: opportunities and challenges**

**By: Bezawit Abrham Melesse**

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**Bezawit Abrham**

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## ACRONYMS

<b>AI</b>	Artificial Intelligence
<b>EMH</b>	Efficient Market Hypothesis
<b>ESX</b>	Ethiopian Securities Exchange
<b>IMF</b>	International Monetary Fund
<b>JSE</b>	South Africa Johannesburg Securities Exchange
<b>MoF</b>	Ministry of Finance

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## ABSTRACT

*This study assesses the infrastructure readiness for capital market development in Ethiopia, highlighting key opportunities and challenges. Ethiopia has historically lacked a formal capital market, but recent government initiatives aim to establish one. The research evaluates the current state of infrastructure, the readiness of financial and institutional systems, and the role of government and private sector initiatives in fostering market growth. Using a descriptive research design, data was gathered from 32 experts in the Ministry of Finance, Ethiopian Securities Exchange, insurance companies, and private commercial banks. Findings indicate that Ethiopia's financial market infrastructure remains underdeveloped, with limited access to investment opportunities, inefficiencies in securities trading, and insufficient market data availability. However, advancements in financial technology and government policy support present significant opportunities for development. Strengthening regulatory frameworks, investing in digital trading platforms, and fostering public-private partnerships are crucial steps forward. Key recommendations include introducing tax incentives, improving financial literacy programs, establishing a stock exchange, and enhancing institutional collaboration to create a sustainable capital market in Ethiopia.*

*This study assesses the infrastructure readiness for capital market development in Ethiopia by examining key opportunities and challenges. The research aims to evaluate the current state of infrastructure, the readiness of financial and institutional systems, and the role of government and private sector initiatives in fostering capital market growth. The study employed a descriptive research design, utilizing census sampling to gather data from 32 experts from the Ministry of Finance, Ethiopian Securities Exchange, insurance companies, and private commercial banks. Data were collected through structured questionnaires and interviews, with quantitative data analyzed using descriptive statistics and qualitative data analyzed through narration. Findings indicate that Ethiopia's capital market infrastructure is underdeveloped, with limited accessibility to investment opportunities, inefficiencies in securities trading, and insufficient market data availability. The reliability of the settlement and clearing systems was found to be neutral, while investor confidence in future market growth remains strong. The study further reveals gaps in financial and institutional infrastructure, with the regulatory framework perceived as inadequate and oversight capabilities questioned. Weak institutional collaboration and insufficient government support hinder market*

*participation. Major challenges include the absence of a stock exchange, inadequate technological infrastructure, and a shortage of skilled professionals. However, financial technology advancements and government policy support present opportunities for development. The study concludes that strengthening regulatory frameworks, investing in digital trading platforms, and fostering public-private partnerships are critical for enhancing market infrastructure. Key recommendations include introducing tax incentives, improving financial literacy programs, establishing a stock exchange, and enhancing institutional collaboration. These measures are essential for creating a sustainable and efficient capital market in Ethiopia.*

**Key words:** *Capital Markets, Financial Institutions, Infrastructure, Development.*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

Capital markets are financial markets where individuals, businesses, and governments buy and sell long-term financial securities such as stocks, bonds, and other investment instruments (Allen, Faia, Haliassos, & Langenbucher, 2024). These markets play a crucial role in economic development by mobilizing savings, facilitating investment, and enabling capital formation. By providing access to long-term financing, capital markets help businesses expand, fund infrastructure projects, and drive economic growth (Olawale, 2024). Globally, well-functioning capital markets are essential in both developed and emerging economies, as they attract foreign direct investment (FDI), support entrepreneurship, and strengthen the overall financial system (Appiah, Gyamfi, Adebayo, & Bekun, 2023).

Capital markets in African countries have experienced varied levels of development, with some nations making significant strides while others continue to face challenges. South Africa's Johannesburg Securities Exchange (JSE), established in 1881, stands as the continent's most advanced, ranking 19th globally and hosting over 800 listed companies with a total capitalization nearing US\$1 trillion (Moodley, Nzimande, & Muzindutsi, 2022). The Absa Africa Financial Markets Index 2024, which evaluates 29 African countries across six pillars—including market depth and access to foreign exchange—highlights the disparities in financial market development across the continent (CFA Institute, 2024).

Additionally, integrating capital markets across African nations is proposed as a strategy to create larger pools of capital, facilitating funding for acquisitions, startups, and infrastructure projects (CFA Institute, 2024). Despite these initiatives, challenges such as limited capital, underdeveloped debt markets, and a small number of listed companies persist, particularly in West African countries, where only five capital markets serve fifteen nations (Zoungrana, Toe, & Toé, 2023). Addressing these issues is crucial for fostering economic growth and attracting investment across the continent.

Ethiopia's financial sector has traditionally been dominated by banking institutions, with the capital market remaining underdeveloped. This reliance on banks for financial

intermediation has limited the availability of long-term financing options for businesses and investors. Recognizing the need for a more diversified financial system, the Ethiopian government has initiated significant reforms to establish a formal securities exchange. In January 2025, the Ethiopian Securities Exchange (ESX) was officially launched, marking a pivotal step in the country's economic liberalization efforts. The ESX aims to list approximately 90 companies over the next decade, providing new financing avenues for Ethiopia's growing economy (Bekele, 2025).

The establishment of the ESX is a cornerstone of Ethiopia's Homegrown Economic Reform program, designed to modernize the financial sector and foster economic growth. By providing a transparent platform for trading financial assets, the ESX is expected to mobilize capital for businesses and offer investors structured opportunities to participate in the country's economic progress. This development reflects the government's commitment to creating a competitive capital market ecosystem and reducing reliance on traditional banking systems for business financing. The ESX's launch is anticipated to enhance financial inclusivity, mobilize capital, and foster investment-led growth across Ethiopia (Ethiopian News Agency, 2025).

Ethiopia's capital market development faces several challenges, including regulatory gaps, limited financial literacy, technological constraints, and market liquidity issues (Kidane, Abera, & Talu, 2024). The absence of a comprehensive regulatory framework has historically hindered the establishment of a robust capital market, while a general lack of awareness and understanding of capital market operations among the populace limits investor participation (Abdu, 2022). Technological limitations further impede the development of efficient trading platforms, and low market liquidity discourages both investors and issuers. Despite these challenges, there are significant opportunities for growth. The government's recent economic reforms, including the establishment of the Ethiopian Securities Exchange (ESX), aim to attract foreign investment, promote economic diversification, and encourage private sector engagement.

This study sought to evaluate Ethiopia's infrastructure preparedness for capital market development, highlighting the associated opportunities and challenges.

## **1.2. Statement of the Problem**

The development of a robust and effective capital market is a critical aspect of fostering economic growth, attracting investment, and supporting sustainable development (Nasrullaevich, 2023). Capital markets enable businesses to access funding and provide a platform for investment opportunities (Olawale, 2024). However, the successful establishment of capital markets requires an adequate and efficient infrastructure that includes financial, technological, and institutional components (Didier, Levine, Montanes, & Schmukler, 2021).

Historically, Ethiopia has had a relatively underdeveloped financial sector, with limited access to capital markets (Zena, Deputy, Zena, & Tel, 2021). The absence of a functioning stock market and other capital market instruments has constrained the ability of businesses to raise long-term capital and has limited the opportunities for domestic and international investors (Olawale, 2024). Previous studies have shown that many emerging economies face similar challenges in establishing capital markets, particularly in the areas of regulatory frameworks, market liquidity, technological infrastructure, and institutional capacity (Didier, Levine, Montanes, & Schmukler, 2021).

There are studies specifically focusing on the capital market development in Ethiopia, yet significant research gaps remain. Jalata (2014) explored the challenges of developing a capital market in Ethiopia, emphasizing legal and regulatory shortcomings. While the study outlined the general difficulties, it did not provide a detailed evaluation of the current state of infrastructure supporting capital markets. Similarly, Tessema (2003) analyzed the prospects of securities markets but focused mainly on financial instruments and investor confidence rather than infrastructure readiness. Given that Ethiopia's economic and financial landscape has changed significantly since these studies, an updated assessment of infrastructure development is necessary.

More recent studies, such as Habte (2023) and Getachew (2017), have discussed the opportunities and challenges of establishing a capital market in Ethiopia. However, these studies largely focused on policy and economic factors without conducting a comprehensive assessment of financial and institutional infrastructure readiness. In particular, Habte (2023) identified regulatory gaps and economic feasibility concerns but did not analyze the technological and operational systems required to support capital market transactions. Similarly, Teklehaimanot (2014) examined Ethiopia's preparedness

for launching a capital market but concentrated on constraints rather than offering a structured evaluation of institutional capacities, financial technology, and market integration.

Another key research gap is the lack of in-depth analysis of government initiatives and private sector involvement in capital market infrastructure development. While studies such as Getachew (2017) and Tessema (2003) touched upon policy interventions, they did not assess how recent government efforts and private sector participation contribute to infrastructure readiness. Given Ethiopia's evolving financial landscape, there is a need for a study that not only identifies infrastructure gaps but also examines the collaborative role of public and private sector initiatives in fostering capital market growth. This study aimed to fill these research gaps by offering a holistic evaluation of Ethiopia's infrastructure readiness, including financial systems, regulatory frameworks, technological advancements, and institutional capacity.

### **1.3. Research questions**

The following research questions guided this study:

1. What is the current state of infrastructure in Ethiopia's capital markets, including physical, financial, and technological components?
2. How prepared are Ethiopia's financial and institutional infrastructures in supporting the efficient functioning of capital market operations?
3. What are the key challenges and opportunities in the development of a robust capital market infrastructure in Ethiopia?
4. What role do government initiatives and private sector participation play in fostering the growth and development of Ethiopia's capital market infrastructure?

### **1.4. Objectives of the Study**

#### **1.4.1. General Objective**

The general objective of this research is to assess the infrastructure readiness for capital markets development in Ethiopia, with a particular focus on identifying opportunities and challenges that exist in this evolving landscape.

#### **1.4.2. Specific Objectives**

The specific objectives of the study were:

1. To evaluate the current state of infrastructure in Ethiopia's capital markets.
2. To evaluate the readiness of financial and institutional infrastructure in supporting capital market operations.
3. To identify key challenges and opportunities in developing a well-functioning capital market infrastructure in Ethiopia.
4. To analyze the role of government initiatives and private sector involvement in fostering capital market growth and infrastructure development.

### **1.5. Significance of the Study**

This study is highly significant for stakeholders, including financial institutions, regulatory bodies, and market participants, as it provides a comprehensive assessment of Ethiopia's infrastructure readiness for capital market development. By identifying key gaps, challenges, and opportunities, the study helps stakeholders make informed decisions regarding investments in financial technology, legal frameworks, and institutional capacities. The findings will assist financial institutions in preparing for a capital market ecosystem by improving their operational structures, while regulators can use the insights to formulate policies that promote transparency, efficiency, and market stability.

For policymakers, the study serves as a crucial reference in designing regulatory frameworks and strategic policies for the successful establishment of capital markets in Ethiopia. Understanding infrastructure gaps, such as technological limitations, legal and regulatory bottlenecks, and institutional inefficiencies, allows policymakers to develop targeted reforms that foster a conducive environment for capital market growth. Furthermore, the study highlights international best practices and lessons learned from other emerging economies, providing valuable insights for crafting policies that align with Ethiopia's economic development goals.

From an investor's perspective, both domestic and foreign investors might benefit from the study's insights into market infrastructure readiness, risk factors, and potential investment opportunities. By shedding light on economic stability, governance structures, and financial regulations, the research helps investors make informed decisions about entering Ethiopia's capital markets. Additionally, the study provides a foundation for future research, as it identifies areas that require further exploration. Researchers and

scholars can build upon these findings to explore deeper aspects of Ethiopia's financial market evolution.

### **1.6. Scope of the Study**

The study will focus on assessing the opportunities and challenges in the infrastructure readiness for capital markets development in Ethiopia. The study conceptual, geographic and methodological scopes were presented here below.

The **conceptual scope** of this study focused on assessing the infrastructure readiness for capital markets development in Ethiopia. It examined the current state of capital market infrastructure, including financial, institutional, and technological systems required to support market operations. The study also evaluated the readiness of financial institutions, regulatory frameworks, and technological capabilities in facilitating efficient capital market activities. Additionally, it identified key challenges and opportunities in developing a well-functioning capital market infrastructure, highlighting gaps in policy, investment, and market integration. Furthermore, the study analyzed the role of government initiatives and private sector involvement in fostering the growth and sustainability of Ethiopia's capital market infrastructure.

The **geographic scope** of the study was limited to Ethiopia, with a primary focus on Addis Ababa, where key financial institutions, regulatory bodies, and capital market stakeholders were concentrated. While the study acknowledged the potential impact of capital market development on other regions, the analysis mainly covered Ethiopia's central financial hub due to the availability of financial institutions, government agencies, and regulatory authorities involved in market development.

The **methodological scope** involves a descriptive survey research design and also used mixed-methods approach that integrates quantitative and qualitative research. In terms of data collection instrument the study used questionnaire and interview. Quantitative data were collected using structured questionnaire with closed-ended questions in five Point Likert-scales. Descriptive statistics namely the percentage, frequency, average (mean) and standard deviation were used to analyze the quantitative data. Qualitative data, derived from interviews were analyzed through narrative techniques to capture participants' subjective experiences and perspectives. The study employed census sampling techniques.

## 1.7. Limitations of the Study

Despite the potential contributions of this study, several limitations were acknowledged that may have affected the findings and their implications. One major limitation was the availability and quality of data on Ethiopia's infrastructure and financial systems. Reliable and up-to-date data were often scarce or not readily accessible, which restricted the depth of the analysis. To mitigate this challenge, the study utilized secondary data from credible sources, including policy documents, government reports, and publications from organizations such as the International Monetary Fund (IMF), World Bank, and African Development Bank. By triangulating data from multiple sources, the study aimed to enhance the robustness and reliability of its findings.

Another limitation was the dependence on secondary data, which constrained the ability to conduct a more in-depth empirical analysis. Secondary data, such as policy documents and reports, often lacked granularity and did not always capture regional disparities within Ethiopia's financial infrastructure. To address this limitation, the study incorporated primary data collected through interviews and surveys with key stakeholders, including financial experts, policymakers, and investors. This approach helped provide fresh perspectives and practical insights that complemented the secondary data, thereby strengthening the overall analysis.

## 1.8. Operational Terms and Definitions

**Capital Market** is a financial market in which long-term debt or equity-backed securities are bought and sold (Allen, Faia, Haliassos, & Langenbucher, 2024).

**Infrastructure** is the foundational physical and organizational structures and facilities needed for the functioning of a society or system (Josey, 2020).

**Financial Infrastructure** refers to the institutions, services, and systems that facilitate the flow of capital in the economy (Caprio, 2022).

**Institutional Infrastructure** is the systems and structures that provide the regulatory and legal framework for the functioning of capital markets (Kunneke, Ménard, & Groenewegen, 2021).

**Financial Market Development** is the process through which financial markets evolve to offer more efficient services for both investors and borrowers, with a focus on

enhancing liquidity, market accessibility, and the range of financial products available (Huang, 2022).

**Readiness** is the state of being prepared for capital market activities, including the availability of legal, institutional, financial, and technological systems to support market transactions effectively (Hussain & Papastathopoulos, 2022).

**Regulatory Framework** is the system of laws, regulations, and policies that govern capital market activities (Moloney, 2023).

**Stakeholders** refer individuals, groups, or organizations that have an interest or investment in capital markets (Aisa, 2021).

### **1.9. Organization of the Study**

The study was organized into five chapters. The first chapter contained the introduction to the study, which included the background of the study, background of the organization, statement of the problem, objectives of the study, research questions, definitions of terms, and the limitations/scope of the study. The second chapter dealt with the related literature review of the study. The third chapter covered the methodology of the study. Chapter four analyzed the data and presented the findings. The final chapter contained the summary of the findings, conclusions, limitations, and recommendations.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

This chapter provides an overview of key topics related to capital market development. It has mainly three sections namely theoretical reviews, empirical review and conceptual framework.

#### 2.1. Theoretical Review

##### 2.1.1. Concept of Capital Markets and Infrastructure Readiness

###### 2.1.1.1. Capital Market

A **capital market** is a financial market where individuals, institutions, and governments trade long-term securities such as stocks, bonds, and other investment instruments. It provides a platform for raising capital for businesses and governments while offering investment opportunities for investors. Capital markets play a crucial role in economic development by facilitating efficient capital allocation, liquidity, and investment growth.

Capital markets are integral components of the financial system, facilitating the mobilization and allocation of long-term funds. Traditionally, they are categorized into primary and secondary markets. In the primary market, new securities are issued and sold directly to investors, enabling entities such as corporations and governments to raise capital for various purposes. Conversely, the secondary market involves the trading of existing securities among investors, providing liquidity and continuous price discovery. This traditional dichotomy underscores the foundational structure of capital markets.

Beyond this basic classification, capital markets can be further delineated based on the nature of the instruments traded and the market participants involved. For instance, markets can be segmented into equity markets, where stocks representing ownership stakes in companies are traded, and debt markets, which deal with bonds and other fixed-income securities. Additionally, distinctions are made between organized exchanges, characterized by standardized procedures and regulations, and over-the-counter markets, which are more decentralized and flexible. These nuanced classifications reflect the diverse mechanisms through which capital markets operate and adapt to the evolving financial landscape.

### **2.1.1.2. Infrastructure Readiness**

Infrastructure readiness refers to the extent to which a country or organization has developed and implemented the necessary physical, technological, regulatory, and human resource frameworks to support economic growth and financial market activities. According to Schwab (2022), infrastructure readiness encompasses aspects such as digital connectivity, financial market depth, and institutional effectiveness, which collectively determine a nation's ability to sustain competitive capital markets. Additionally, Lall and Mengistae (2023) argue that infrastructure readiness is crucial for fostering innovation, reducing transaction costs, and enhancing economic resilience, particularly in emerging markets.

The importance of infrastructure readiness in capital market development has been widely documented in recent literature. According to Kim and Lee (2022), countries with high infrastructure readiness exhibit greater market efficiency, increased investor confidence, and enhanced financial integration. Strong infrastructure readiness ensures seamless connectivity between financial institutions, regulatory bodies, and market participants, facilitating timely transactions and effective risk management. In contrast, inadequate infrastructure leads to inefficiencies, increased transaction costs, and heightened market volatility, deterring both domestic and international investors.

Furthermore, technological advancements have transformed infrastructure readiness into a critical determinant of financial market success. Research by Gomber, Koch, and Siering (2023) highlights that digital infrastructure, including high-speed internet, secure data centers, and automated trading platforms, enhances market accessibility and operational efficiency. Blockchain technology and artificial intelligence (AI) are also revolutionizing trade settlement and risk assessment processes, contributing to improved market transparency and resilience. As a result, policymakers must prioritize investments in digital and technological infrastructure to remain competitive in the global financial landscape.

In addition to technological aspects, regulatory and human capital readiness significantly impact infrastructure readiness. According to Arner et al. (2023), countries that adopt adaptive regulatory frameworks and invest in financial education programs tend to experience stronger capital market development. A skilled workforce with expertise in financial regulation, risk management, and digital finance fosters market stability and

innovation. Moreover, international organizations such as the World Bank (2023) emphasize the importance of cross-sector collaboration in building infrastructure readiness, advocating for public-private partnerships to accelerate infrastructure development and financial inclusion.

### **2.1.1.3. Digital Financial Infrastructure**

Financial infrastructure is a critical component of a well-functioning economy, as it facilitates capital flows, ensures financial intermediation, and enhances transactional efficiency. According to Allen et al. (2022), a strong financial infrastructure supports economic stability by reducing transaction costs, increasing market transparency, and mitigating financial risks. Key elements of financial infrastructure include stock exchanges, clearinghouses, payment systems, and regulatory bodies that ensure compliance with financial standards and regulations. In emerging markets, strengthening financial infrastructure has been found to boost investor confidence and attract foreign direct investment (FDI), contributing to economic growth and financial inclusion (World Bank, 2023).

Technological advancements have significantly transformed financial infrastructure, leading to greater efficiency and accessibility in financial transactions. The adoption of digital payment systems, blockchain technology, and artificial intelligence in financial services has enhanced the speed, security, and cost-effectiveness of capital markets (Chen & Liu, 2023). Furthermore, fintech innovations have expanded financial access to underserved populations, demonstrating the role of technology in strengthening financial infrastructure (Arner, Barberis, & Buckley, 2023). Despite these advancements, regulatory frameworks must evolve to address emerging cybersecurity threats and ensure data protection.

A robust regulatory framework is essential for maintaining the integrity and stability of financial infrastructure. Regulatory bodies such as central banks, securities commissions, and financial supervisory authorities play a crucial role in overseeing financial institutions, enforcing compliance, and managing financial risks (IMF, 2023). Effective regulations help prevent financial crises, promote fair competition, and enhance investor protection. However, regulatory fragmentation across jurisdictions can create inefficiencies and barriers to cross-border transactions (Contractor, Nuruzzaman, Dangol, & Raghunath, 2021).

### **2.1.2. Theoretical Framework for Capital Market**

The theoretical framework for capital markets provides a foundation for understanding market dynamics, institutional influences, and financial infrastructure. Various theories explain how markets operate, how institutions shape financial systems, and how infrastructure readiness impacts market efficiency. Among these, the Efficient Market Hypothesis (EMH) explores the extent to which markets reflect all available information, Institutional Theory examines the role of formal and informal institutions in shaping capital market structures, and Financial Infrastructure Theory highlights the significance of technological and regulatory systems in facilitating market operations. These theories collectively provide a comprehensive lens to assess the development and challenges of capital markets, particularly in emerging economies.

#### **2.1.2.1. Efficient Market Hypothesis (EMH)**

The Efficient Market Hypothesis (EMH), proposed by Fama (1970), asserts that financial markets are efficient in reflecting all available information in asset prices. This implies that investors cannot consistently achieve abnormal returns by exploiting information that is already publicly available. Empirical studies, such as those by Lo and MacKinlay (2022), have tested EMH across various market conditions, finding that while some markets exhibit strong efficiency, others display inefficiencies due to information asymmetry, investor behavior, and regulatory gaps.

Recent literature continues to debate the validity of EMH in different market contexts. For instance, research by Shiller (2021) challenges the assumption of perfect market efficiency, highlighting behavioral anomalies and irrational investor actions that lead to market bubbles and crashes. Behavioral finance studies argue that psychological factors, such as overconfidence and herd behavior, contribute to market inefficiencies, contradicting the strict assumptions of EMH. Consequently, hybrid models that integrate EMH with behavioral insights have gained traction in explaining market anomalies.

The implications of EMH for capital market development are significant. If markets are efficient, regulatory interventions may be minimal, as prices already incorporate all available information. However, in emerging markets, where information asymmetry and limited financial literacy exist, achieving full efficiency remains a challenge. Studies by Mishkin (2023) suggest that infrastructure improvements, such as enhanced transparency

and investor education, are necessary to move markets toward greater efficiency, reinforcing the importance of infrastructure readiness in capital market development.

#### **2.1.2.2. Institutional Theory**

Institutional Theory, developed by North (1990), emphasizes the role of institutions in shaping economic and financial systems. Institutions, both formal (laws, regulations) and informal (norms, culture), influence the stability, efficiency, and development of capital markets. Scott (2022) research highlights that strong institutional frameworks enhance investor confidence, reduce transaction costs, and foster financial stability, making them a crucial component of market readiness.

In emerging economies, weak institutional structures often hinder market development. Studies by Acemoglu and Robinson (2021) reveal that political instability, inconsistent regulatory policies, and corruption create uncertainties that deter investment and limit market participation. Effective governance, judicial independence, and transparent enforcement of financial regulations are essential to overcome these challenges and build trust in capital markets.

Moreover, globalization and financial integration have intensified the influence of institutional structures on capital markets. According to Challapalli (2023), the harmonization of regulatory frameworks across countries facilitates cross-border investments and enhances market efficiency. As Ethiopia seeks to develop its capital market, strengthening institutional capacities, ensuring regulatory consistency, and fostering investor protection mechanisms will be vital components of infrastructure readiness.

#### **2.1.2.3. Financial Infrastructure Theory**

Financial Infrastructure Theory underscores the importance of technological and institutional systems in enabling efficient financial transactions. According to Bindseil and Pantelopoulos (2023), financial infrastructure encompasses payment systems, clearing and settlement mechanisms, credit information systems, and regulatory frameworks that support capital market activities. Strong financial infrastructure enhances market liquidity, reduces transaction costs, and mitigates systemic risks.

Empirical studies highlight the correlation between financial infrastructure and market development. Emara and El Said (2021) research finds that countries with well-

established financial infrastructure experience higher levels of investment, financial inclusion, and economic growth. Digital advancements, such as blockchain-based trading platforms and automated risk management systems, further improve transaction efficiency and reduce operational risks in capital markets.

However, developing economies often face challenges related to inadequate financial infrastructure. Studies by Putrevu and Mertzanis (2024) suggest that limited access to digital financial services, underdeveloped credit reporting mechanisms, and weak regulatory oversight hinder market efficiency. Addressing these gaps through targeted infrastructure investments and policy reforms is crucial for enhancing capital market readiness in Ethiopia.

This study aligns with the theoretical perspectives discussed above. The Efficient Market Hypothesis (EMH) provides insights into the current efficiency levels of Ethiopia's capital market and highlights the role of infrastructure improvements in reducing market inefficiencies. Institutional Theory emphasizes the necessity of a strong regulatory and governance framework to create an enabling environment for market growth. Financial Infrastructure Theory underscores the critical role of technological advancements and financial systems in ensuring market accessibility and operational efficiency. By integrating these theories, the study offers a holistic approach to assessing Ethiopia's capital market readiness and identifying strategic interventions to address existing challenges.

### **2.1.3. Key Infrastructure Components for Capital Market Development**

The development of well-functioning capital markets depends on several key infrastructural elements that ensure efficiency, stability and investor confidence. These elements include a strong legal and regulatory framework, robust financial market institutions, advanced ICT and digital infrastructure, and a skilled workforce. Each of these factors play a decisive role in promoting the flow of capital, ensuring transparency, and promoting economic growth. In recent studies, countries with sufficient infrastructure developed in the capital market emphasize that more investments, increasing financial integration, and contributing to economic stability. This section explores these components in detail, supported by recent literature and empirical studies.

### **2.1.3.1. Legal and Regulatory Framework**

A well-defined legal and regulatory framework is fundamental for the proper functioning of capital markets. According to La Porta et al. (2020), strong legal protections for investors and enforcement mechanisms increase market participation and confidence. Regulations governing securities trading, investor rights, and corporate governance contribute to market efficiency and reduce information asymmetry. The presence of independent regulatory bodies ensures compliance with international best practices, enhancing the credibility of the capital market.

In emerging markets, regulatory challenges often hinder capital market growth. Studies by Demirgüç-Kunt and Levine (2021) indicate that weak legal enforcement and inconsistent regulatory policies create uncertainty, deterring investors. Effective regulations should address market misconduct, insider trading, and systemic risks to ensure stability. The adoption of international financial reporting standards (IFRS) and Basel III principles strengthens market transparency and risk management, as evidenced in recent assessments by the World Bank (2023).

Moreover, regulatory adaptability to technological advancements is critical. As highlighted by Iyelolu, et al. (2024), the rise of fintech and digital trading platforms necessitates updated regulatory frameworks to accommodate innovation while safeguarding market integrity. Regulatory sandboxes have emerged as effective tools to test new financial products under controlled conditions. Therefore, a dynamic and responsive legal framework is essential for capital market development and integration into the global financial system.

### **2.1.3.2. Financial Market Institutions**

Financial market institutions play a pivotal role in mobilizing savings, allocating capital efficiently, and maintaining market stability. Stock exchanges, central depositories, and clearinghouses are essential institutions that facilitate trading, settlement, and risk management. According to Lee, et al (2021), well-functioning financial market institutions enhance liquidity and reduce transaction costs, making capital markets more attractive to investors.

The effectiveness of financial institutions depends on their governance structure and operational efficiency. Beck, Demirgüç-Kunt, and Levine (2021) research suggests that state-owned financial institutions often face inefficiencies due to political interference,

whereas privately governed institutions tend to perform better. Independent oversight, technological adoption, and transparent operations contribute to institutional credibility and investor trust. Additionally, the presence of credit rating agencies and investment banks further supports market stability by providing risk assessments and financial advisory services.

In many developing economies, financial institutions face challenges such as limited market depth and inadequate risk management mechanisms. According to the IMF (2023), strengthening these institutions through policy reforms, digital transformation, and enhanced supervisory mechanisms can significantly improve market efficiency. The introduction of electronic trading platforms and blockchain-based settlement systems has also shown promise in reducing operational inefficiencies and fraud risks.

### **2.1.3.3. Digital Infrastructure**

Information and Communication Technology (ICT) and digital infrastructure are critical for modern capital markets. Digital trading platforms, automated settlement systems, and cybersecurity frameworks ensure market efficiency and security. According to Gomber, Koch, and Siering (2023), the adoption of fintech solutions has revolutionized market access, allowing real-time trading and improving liquidity.

Technological advancements have enabled high-frequency trading (HFT) and algorithmic trading, which enhance market efficiency but also pose regulatory challenges. A study by Chang and Chou (2022) highlights the need for robust monitoring mechanisms to prevent market manipulation and flash crashes. Additionally, digital infrastructure facilitates cross-border investments by enabling seamless transactions and compliance with international regulatory standards.

Cybersecurity threats remain a significant concern for capital market participants. As noted by Nish, Naumann, and Muir (2022), cyberattacks on stock exchanges and trading platforms can undermine market confidence and lead to substantial financial losses. Implementing advanced cybersecurity protocols, such as blockchain for trade settlement and AI-driven fraud detection, enhances market resilience. Governments and financial regulators must collaborate to establish secure and interoperable digital infrastructure to support capital market growth.

#### **2.1.3.4. Human Capital and Skills Development**

A skilled workforce is essential for the efficient functioning of capital markets. Financial analysts, investment professionals, and regulatory experts play a crucial role in market development. According to Lusardi and Messy (2023), countries with well-developed financial education programs and training institutions tend to have more sophisticated capital markets.

Continuous professional development and capacity-building initiatives are necessary to keep pace with evolving market dynamics. Kaiser, et al (2022) study emphasize the importance of specialized training in areas such as financial technology, risk management, and sustainable investing. Universities and financial institutions must collaborate to design curricula that align with industry needs, ensuring a steady supply of qualified professionals.

The role of regulatory and financial institutions in human capital development cannot be overlooked. The World Economic Forum (2023) highlights that skill gaps in financial literacy and digital proficiency hinder market participation. Governments should invest in financial education programs and facilitate knowledge-sharing platforms to enhance market awareness. By fostering a skilled workforce, countries can strengthen their capital markets and attract both domestic and international investors.

#### **2.1.4. Challenges and Opportunities in Emerging Capital Markets**

Emerging capital markets face several challenges that hinder their development and efficiency. One significant challenge is market volatility, which arises due to factors such as political instability, currency fluctuations, and macroeconomic uncertainties. According to Ben Ghoszi and Chaibi (2022), emerging markets exhibit higher volatility compared to developed markets, making them riskier for investors. Moreover, the lack of diversified investment products and limited access to international capital further exacerbate market fluctuations (Chari & Henry, 2021).

Another major challenge is regulatory inefficiencies and weak legal frameworks. Studies by Oluyeju et al. (2022) indicate that ineffective regulations and weak enforcement mechanisms contribute to issues such as insider trading, corporate governance failures, and investor protection concerns. In many emerging markets, the absence of well-defined financial laws creates an environment where fraudulent activities and financial misconduct thrive (Swandaru & Muneeza, 2022).

Despite these challenges, emerging capital markets offer significant opportunities for investors and economic growth. One key opportunity is the rapid technological advancement and digital transformation of financial markets. Fintech innovations, such as blockchain technology, algorithmic trading, and mobile investment platforms, have enhanced accessibility and transparency in emerging markets (Demirgüç-Kunt & Levine, 2021).

Additionally, demographic and economic growth trends in emerging economies create a strong foundation for capital market expansion. Grohmann, et al. (2021) research highlights that rising middle-class populations and increased financial literacy contribute to higher participation in capital markets. Moreover, foreign direct investment (FDI) inflows into emerging markets are increasing, providing much-needed capital and fostering market integration with global financial systems (Sadashiv, 2023).

Finally, policy reforms and institutional strengthening present a major opportunity for the development of emerging capital markets. Governments and regulatory bodies in several emerging economies are actively working to improve legal frameworks, enhance investor protection, and attract international investments (Contractor, Nuruzzaman, Dangol, & Raghunath, 2021). These efforts contribute to the long-term sustainability and stability of emerging capital markets, making them attractive investment destinations.

## **2.2. Review of Empirical Studies**

This section presented the reviews of empirical studies on capital market development on the global context and in Africa as well as on the context Ethiopia.

Alfiqri (2024) explores the role of financial instruments in capital markets, emphasizing their function in facilitating investment and risk management. The study categorizes financial instruments into equity, debt, and derivative securities, highlighting their importance in enhancing liquidity and capital allocation. Additionally, the paper discusses regulatory frameworks governing these instruments, stressing the need for effective oversight to maintain market stability. The findings suggest that well-developed financial instruments contribute to economic growth by fostering efficient capital allocation and investment diversification.

Fathmaningrum and Utami (2022) investigate the determinants of investment decisions in the capital market during the COVID-19 pandemic. Their research identifies factors such as investor sentiment, market volatility, and government policies as key influences on

investment behavior. Using empirical analysis, the study demonstrates that psychological and external economic factors significantly impacted investment decisions during the crisis. The findings highlight the importance of investor confidence and government intervention in stabilizing capital markets during periods of uncertainty.

Panov (2021) examines the challenges associated with financial market infrastructure risk management systems. The study highlights the evolving nature of financial market risks, particularly in the context of digital transformation and increasing interconnectivity. It discusses systemic risks posed by technological disruptions, cyber threats, and regulatory changes, proposing a multi-layered risk management framework. The research underscores the need for adaptive regulatory policies and robust risk assessment mechanisms to ensure financial stability.

Petry et al. (2023) analyze the intersection of state capitalism and capital markets, focusing on securities exchanges in emerging markets. Their study compares the degree of state involvement in different financial systems and its impact on market efficiency and investor confidence. The authors argue that state intervention in capital markets can either promote stability or hinder market efficiency, depending on the regulatory environment. The findings emphasize the importance of balancing government participation with market-driven mechanisms to foster sustainable capital market growth.

Andersson et al. (2023) explore the role of market infrastructure and integration in driving innovation within capital markets. The study examines historical trends in market development, showing how infrastructure improvements facilitate financial integration and innovation. By analyzing different financial ecosystems, the research identifies key factors contributing to market efficiency and technological advancements. The findings suggest that well-integrated and adaptive market infrastructures are crucial for fostering innovation and long-term economic development.

Ntembe, Amin, and Tawah (2022) examine the relationship between capital market development and economic growth in North Africa, emphasizing the role of financial integration in enhancing economic performance. Their study highlights key factors influencing market efficiency, such as regulatory frameworks, financial infrastructure, and investor participation. The authors argue that well-developed capital markets contribute to economic growth by mobilizing savings, facilitating investment, and improving capital allocation. However, they also note that political instability and weak

regulatory enforcement remain significant challenges to market development in the region. Their findings underscore the need for policy reforms and stronger financial institutions to enhance the role of capital markets in economic growth.

Olawale (2024) investigates the impact of capital markets on Nigeria's economic growth, employing empirical analysis to assess the correlation between market development and macroeconomic indicators. The study finds that capital market activities, including stock market capitalization, trading volume, and foreign investment, positively influence GDP growth. However, the research also identifies challenges such as market volatility, inadequate investor confidence, and regulatory inefficiencies that hinder optimal capital market performance. The author suggests that improving financial literacy, strengthening market regulations, and fostering investor confidence are critical for enhancing the contribution of capital markets to Nigeria's economic development. Both studies emphasize the importance of capital markets as drivers of economic growth while highlighting region-specific challenges that require targeted policy interventions.

Empirical studies on Ethiopia's financial sector reveal a complex interplay of challenges and opportunities. For instance, Jalata (2014) examined the challenges associated with capital market development in Ethiopia, highlighting key institutional, regulatory, and economic barriers. The study emphasized the absence of a well-defined legal and regulatory framework as a major impediment to establishing a capital market. Additionally, it pointed out that Ethiopia's financial sector remains dominated by banks, limiting the availability of alternative investment instruments. While the study provided a general overview of the difficulties, it did not offer a detailed assessment of the infrastructure readiness required to support capital market operations, leaving a gap in understanding the financial and technological foundations necessary for market development.

Teklehaimanot (2014) assessed Ethiopia's readiness to establish a capital market by analyzing its economic environment, financial sector structure, and institutional capacity. The study identified several constraints, including a weak financial regulatory system, limited public awareness of capital markets, and an underdeveloped technological infrastructure. Furthermore, it questioned the feasibility of implementing a capital market without significant improvements in governance and financial transparency. While this study offered a critical evaluation of the country's financial preparedness, it primarily

focused on potential constraints rather than systematically evaluating the readiness of financial and institutional infrastructure to support capital market operations.

Tessema (2003) conducted an analytical review of the prospects and challenges of developing securities markets in Ethiopia. The study underscored the importance of a well-functioning capital market for economic growth, emphasizing the need for a strong legal framework, increased financial literacy, and enhanced investor confidence. It also highlighted the role of government policy in shaping market development. However, given the study's publication date, its findings may not fully capture Ethiopia's current financial and technological advancements. Additionally, while it provided a broad overview of challenges and prospects, it did not specifically assess the role of recent government initiatives and private sector involvement in developing capital market infrastructure.

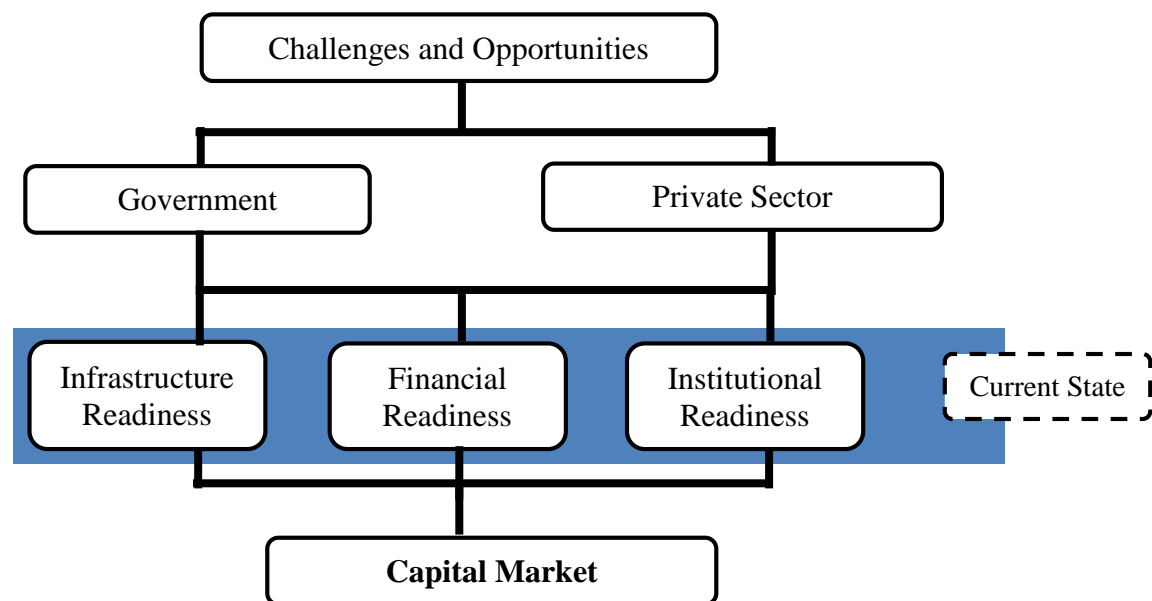
**2.3. This study's conceptual framework focuses on the critical elements influencing Ethiopia's capital market development. It examines infrastructure readiness in four key areas: financial systems, institutional capacity, technological infrastructure, and regulatory frameworks. Ethiopia's financial sector has traditionally been bank-dominated, with limited capital market infrastructure. This study integrates Financial Infrastructure Theory and Institutional Theory to analyze market readiness. The framework considers institutional collaboration, legal provisions, financial technology, and regulatory capacity as key determinants of infrastructure preparedness. By identifying challenges and opportunities in these areas, the study provides insights into the steps necessary for establishing an effective and sustainable capital market.**

The conceptual framework for this study outlines the critical components influencing infrastructure readiness for capital market development in Ethiopia. The framework focuses on four main thematic components: the current state of infrastructure, financial and institutional readiness, challenges and opportunities, and the role of government and the private sector. As indicated in Figure 2.1, these components collectively shape the foundation for an effective and well-functioning capital market.

The current state of infrastructure is a fundamental aspect of capital market readiness. It includes the availability and quality of physical, digital, and financial infrastructure

required for efficient market operations. Key infrastructure elements such as stock exchanges, clearing and settlement systems, financial reporting standards, and technological platforms play a crucial role in enabling smooth capital market activities. In Ethiopia, the development of an organized capital market is still in its early stages, necessitating an assessment of existing infrastructure to identify gaps and potential areas for improvement.

Figure 2.1: Conceptual Framework of the Study



**Source:** Developed by the researcher based on the objectives

The second component, financial and institutional readiness, examines the role of financial institutions, regulatory frameworks, and market intermediaries in supporting capital market operations. A well-structured financial system, including strong banking institutions, investment firms, and market regulators, enhances market efficiency and investor confidence. Additionally, clear legal and regulatory frameworks are essential in ensuring market stability, transparency, and investor protection. Ethiopia's efforts to establish regulatory bodies and attract institutional investors will significantly impact its capital market development.

The framework also identifies challenges and opportunities that influence market infrastructure readiness. Challenges such as weak regulatory enforcement, lack of investor awareness, limited financial literacy, and insufficient market depth can hinder the development of a robust capital market. Conversely, opportunities like technological advancements, increasing foreign investment, and government-led policy reforms can facilitate market growth. By identifying and addressing these factors, policymakers and stakeholders can implement strategies to enhance market infrastructure and attract more investors.

Finally, the role of government initiatives and private sector involvement is a crucial factor in fostering capital market infrastructure development. Government policies, such as tax incentives, capital market regulations, and financial sector reforms, create an enabling environment for market expansion. Likewise, private sector participation, including the involvement of banks, insurance companies, and corporate investors, plays a key role in providing liquidity, innovation, and efficiency in market operations. A collaborative approach between the public and private sectors is essential to building a strong and sustainable capital market ecosystem in Ethiopia.

By integrating these four key components, the conceptual framework provides a comprehensive approach to assessing Ethiopia's infrastructure readiness for capital market development. It highlights the interconnected nature of infrastructure, institutions, regulations, and investment environments, offering insights into strategic interventions required to build a competitive and efficient capital market.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

The research methodology outlines the process used to conduct the study. It provides a detailed explanation of the steps taken to gather the necessary information. The following sections cover the research design and approach, target population, sample size and sampling procedures, data collection tools, data sources, and data analysis methods.

#### **3.1. Research Design**

Research design is a logical work plan that highlights the flow of the work until the completion of the project (Kumari, Lavanya, Vidhya, Premila, & Lawrence, 2023). As the objectives of this research paper is to assess the opportunities and challenges of infrastructure readiness for capital markets development in Ethiopia. To this end, the researcher used descriptive survey research design. The descriptive survey research design allows the researcher to systematically collect and analyze data to describe the current status, characteristics, and conditions of the subject being studied—in this case, the opportunities and challenges of infrastructure readiness for capital markets development in Ethiopia..

#### **3.2. Research Approach**

When conducting research, researchers follow different research approaches. According to Sim et al. (2018), there are three research approaches, namely quantitative approach, qualitative approach, and mixed approach. This study used a qualitative and quantitative research approach. According to Mukherjee (2019), qualitative analysis is a multi - method that includes an interpreted and natural approach to its subject. In this study, a qualitative approach is generally used to analyze the data obtained through open-ended questions as well as interviews.

The quantitative research approach is based on the measurement of the amount or amount. It can be applied to phenomena that can be expressed from a number or quantity perspective. In this study, the approach to quantitative research which is considered to be adapted to data collection using questionnaires. The researcher also used the quantitative quantity of research to analyze and code the information from respondents. This is because quantitative research approach is a systematic investigation of phenomena by gathering quantifiable data and performing statistical, mathematical, or computational

techniques and is mostly conducted in social sciences using statistical methods (Pandey & Pandey, 2021).

### **3.3. Type and Source of Data**

This study used qualitative and quantitative data to achieve its objectives. In addition, this study used both primary and secondary source of data. The primary data was collected, through questionnaires from Investors as well as through interview from Ministry of Finance, and Ethiopian Securities Exchange (ESX) directors and experts. Secondary data on the other hand was collected from policy, reports, organizational booklet, Journal, articles and magazine. A clear benefit of using secondary data is that much of the background work needed has already been carried out or analyzed (Kothari, 2004).

### **3.4. Population and Sample Design**

#### **3.4.1. Population of the Study**

The researcher included institutional investors, directors, and experts from the Ministry of Finance and the Ethiopian Securities Exchange (ESX) because these groups possess critical knowledge and firsthand experience regarding the infrastructure necessary for capital markets development in Ethiopia. Institutional investors play a pivotal role in the functioning and growth of capital markets, while directors and experts from the Ministry of Finance and ESX are key stakeholders responsible for policy-making, regulation, and market operations.

According to recent reports, the Ethiopian Securities Exchange (ESX) currently has around 17 institutional investors, including 16 private commercial banks and 12 insurance companies. From private commercial banks and insurance companies, the researcher included experts from department of investment, and financial analysis, as these teams are directly involved in capital market activities. The experts from these institutions would provide valuable insights into the investment strategies, risk assessments, and financial frameworks that impact the infrastructure readiness for capital markets development in Ethiopia.

As indicated in Table 3.1 below, the population of the study consists of a total of 32 experts from various institutions, distributed across four key sectors involved in Ethiopia's capital markets infrastructure development. Experts from the Ministry of

Finance and the Ethiopian Securities Exchange (ESX) each represent 6.25% of the population, contributing a total of 4 individuals.

Table 3.1: Population of the study

<b>Institutions</b>	<i>N</i>	<i>%</i>
Ministry of Finance Expert	2	6.25
Ethiopian Securities Exchange (ESX) Expert	2	6.25
Private commercial banks Expert	16	50.00
Insurance companies Expert	12	37.50
<b>Total</b>	<b>32</b>	100.00

**Source:** Survey data (2024)

A larger proportion, 50%, comes from private commercial banks, with 16 experts providing insights from the banking sector. Finally, 12 experts from insurance companies account for 37.5% of the study’s population. This diverse group ensures a comprehensive range of perspectives on the opportunities and challenges of capital markets development, with a strong focus on the financial institutions that play a central role in the market’s functioning.

### **3.4.2. Sample Size and Sampling Procedures**

The study used census sampling to include all 32 experts, indicated in Table 3.1, from the relevant institutions because census sampling ensures that every member of the population is included in the research, thereby providing a comprehensive and accurate representation of the views and experiences of key stakeholders. This approach is particularly useful in this context, as the target population is relatively small and consists of individuals with specialized knowledge essential for assessing infrastructure readiness for capital markets development. By including all experts from the Ministry of Finance, Ethiopian Securities Exchange (ESX), private commercial banks, and insurance companies, the researcher ensures that the data reflects the full spectrum of perspectives from the main institutions involved in capital markets development. The distribution of the population, with 50% of experts from private commercial banks, 37.5% from insurance companies, and 6.25% from both the Ministry of Finance and ESX, indicates the significant role played by financial institutions in the study’s subject. This balanced approach allows for a thorough understanding of the challenges and opportunities faced by these institutions in the context of Ethiopia’s capital market infrastructure. Thus the sample size of this study was 32.

### **3.5. Data Collection Instruments**

The study employed two kinds of data gathering instruments namely questionnaire and interview.

#### **3.5.1. Questionnaire**

The development of a comprehensive questionnaire is essential for gaining insights into various aspects of athlete experiences and team dynamics. The questionnaire was used to collect data from participant experts from 16 private commercial banks and 12 insurance companies.

It had five main sections. The first section was used to collect background of the respondents'. The second to fifth section contain seven closed-ended questions each related to the issue under investigation, utilizing a five-point Likert scale to allow participants to rate their level of agreement.

#### **3.5.2. Interview**

In addition to the questionnaire, two types of semi-structured interview guiding questions were developed for Ministry of Finance and Ethiopian Securities Exchange (ESX) experts respectively. The interview questions for both groups were carefully designed to align with the study's objectives and provide qualitative data to complement the quantitative findings from the survey. Both sets of interview questions were prepared in the English language to ensure consistency and clarity in communication.

### **3.6. Methods of Data Analysis**

Since a quantitative and qualitative research approach was used, quantitative data from the questionnaire were encoded to the computer, and then using computer programs for data processing, especially a statistical package for social sciences (SPSS) version 20 quantitatively data analyzed the use of descriptive statistics . Descriptive tools, namely the percentage, frequency, average (mean) and standard deviation were employed. Qualitative data were analyzed through narrative analysis focusing on participants' responses to capture their experiences, perspectives and meanings. Key themes and insights were identified, organized and presented as a coherent narrative to complement the quantitative findings and provide deeper context and understanding of the study aims.

### 3.7. Reliability and Validity of the Instruments

According to Sekaran (2003), reliability pertains to the degree to which an instrument consistently produces the same results across various trials. Validity, on the other hand, indicates how well the instrument measures what it is intended to measure. Consequently, the researcher assessed the instrument's reliability and validity, as detailed in the following sections.

#### 3.7.1. Reliability of the Instrument

As noted by Kothari (2004), it is essential to verify the reliability of the research instrument by assessing whether it produces consistent results over multiple trials. This process also ensures that respondents comprehend the questionnaire's intent and aligns with the objective of determining if the instrument's items can effectively gather pertinent information.

To measure the instrument's consistency, the student researcher employed Cronbach's alpha coefficient. For this purpose, a pilot test was carried out at the Commercial Bank of Ethiopia, which was not included in this study. Draft questionnaires were given to 10 experts selected through simple random sampling. Once the completed questionnaires were collected, the reliability of the items was evaluated using the Cronbach's alpha method.

Table 3.2: Reliability statistics result

Items	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
Current status of infrastructure	<b>.870</b>	.870	7
Infrastructure Readiness	<b>.859</b>	.868	7
Institutional Readiness	<b>.941</b>	.938	7
Financial Readiness	<b>.929</b>	.928	7
Challenges	<b>.862</b>	.870	7
Opportunities	<b>.931</b>	.931	7
Government initiatives	<b>.852</b>	.860	7
Private sector involvement	<b>.848</b>	.848	7

**Source:** Survey data, 2024

As shown in Table 3.2, all Cronbach's alpha values for the instrument are above 0.7. According to Gay, Mills, and Airasian (2009), a Cronbach's alpha results greater than 0.7

is considered acceptable. Therefore, it can be concluded that all items in this study are consistent and reliable.

#### **3.7.1.1. Validity of the Instrument**

Validity refers to how accurately an instrument measures what it claims to measure (Blumberg, Cooper, & Schindler, 2005). It indicates the truthfulness of the results. To ensure the instrument's validity, the researcher sent the questionnaire and interview guiding questions to my advisor. Based on the comments from the advisor revisions were made to the instruments.

### **3.8. Ethical Considerations**

All information collected was kept confidential and used for research purposes only, maintaining confidentiality and privacy. Participants were informed that the information was for academic research purposes and that the questionnaires should not be accessed by unauthorized persons. The aim of this study was to avoid asking uncomfortable questions or conveying dislike, to avoid making statements or persuasive responses that could be deemed intimidating in any way, and to avoid causing fear or anxiety when gathering information.

Respondents' requests for anonymity were respected. The identity of respondents will be kept confidential and will remain secret as their names will not appear on the questionnaires. Subjects were invited to voluntarily participate in the study through a study cover letter and were asked to provide informed consent by completing an information consent form. Results were distributed on an unbiased basis and based on actual results. In addition, the participant has the right to know details about the researcher, the information and results of the study, as well as its benefits, and to have any interference with his or her privacy reduced to a minimum.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

This chapter mainly deals on the presentation, analysis, and interpretation of the data obtained using a variety of tools. The chapter was primarily divided into four sections. The first and second sections discuss the respondents' response rates and background of respondents. The third section presenting the descriptive analysis of quantitative data obtained from the questioner. The last section presented the narrative analysis of qualitative data obtained through interview.

#### 4.1. Response Rate

Table 4.1 presented the rate of response of this study. The response rate for the data collection tools in this study was generally high, indicating strong participant engagement. Out of the 28 questionnaires distributed, 27 were returned, resulting in a 96.43% response rate. This high return rate suggests that the respondents were highly cooperative and interested in the subject matter. A response rate above 90% is considered excellent in survey research, as it minimizes the risk of non-response bias and enhances the reliability of the data. The near-complete return of questionnaires indicates that the findings derived from this dataset are likely to be representative of the target population, strengthening the overall validity of the study.

Table 4.1: Response Rate

Data Collection Tools	To be distributed/conducted	Returned/conducted	
		Number	Percent
Questionnaire	28	27	96.43
Interview	4	3	75.00

*Source:* Own Survey, 2024

Similarly, the interview response rate was also relatively strong, though slightly lower than the questionnaire response rate. Out of the four scheduled interviews, three were successfully conducted, yielding a 75.00% response rate. While this response rate is still considered acceptable for qualitative research, the one missed interview may have slightly limited the diversity of perspectives gathered. Morton, Bandara, Robinson and Carr (2012), suggested above 90% response rate is the acceptable response rate in research.

Thus, this high response rate indicates sufficient and safe to analyze and interpret the data.

#### 4.2. Demographic Information of the Respondents

Demographic variables (Organization, Educational level, Experience and so on) were not considered as factor variable for the study however it helps to show the composition of the respondents that are included in this study. This section presents the demographic characteristics respondents.

Table 4.2: Respondents background information

<b>No</b>	<b>Variables</b>	<b>Category</b>	<b>N</b>	<b>%</b>
1	Position in Your Company (organization)	Director	2	6.7
		Head of Department	1	3.3
		Expert	27	90.0
		<b>Total</b>	<b>30</b>	<b>100</b>
2	Educational level	Master's Degree	30	100.0
		<b>Total</b>	<b>30</b>	<b>100</b>
3	Work Experience financial sector (in Years)	4-6 years	2	6.7
		7-10 years	21	70.0
		More than 10 years	7	23.3
		<b>Total</b>	<b>30</b>	<b>100</b>
4	Size of your organization (number of employees)	101 to 200	1	3.3
		More than 200	29	96.7
		<b>Total</b>	<b>30</b>	<b>100</b>

*Source:* Own Survey, 2024

As indicated in Table 4.2, the composition of respondents based on their position in the organization shows that the majority were experts, accounting for 27 individuals (90.0%), while 2 respondents (6.7%) were directors, and 1 respondent (3.3%) was a head of department. This distribution indicates that the study primarily gathered insights from professionals with hands-on experience in capital markets and financial infrastructure. The dominance of experts ensures that the responses are technically sound and provide a detailed understanding of infrastructure readiness for capital markets development in Ethiopia.

Regarding educational qualifications, all 30 respondents (100.0%) held a Master's degree, reflecting a highly educated participant group. This suggests that the respondents possess advanced knowledge and expertise in finance, economics, or related fields. Such a high

level of education strengthens the credibility of the study, as it ensures that the insights and assessments provided are based on informed opinions and professional experience in the sector.

The work experience of respondents in the financial sector reveals that 21 individuals (70.0%) had 7-10 years of experience, followed by 7 respondents (23.3%) with more than 10 years of experience, and 2 respondents (6.7%) with 4-6 years of experience. This indicates that the majority of respondents have significant industry exposure, allowing them to provide valuable insights into the challenges and opportunities of capital market infrastructure development. The presence of experienced professionals ensures that the study benefits from deep industry knowledge and practical perspectives.

The size of the organizations represented by the respondents shows that 29 participants (96.7%) were from organizations with more than 200 employees, while only 1 respondent (3.3%) was from an organization with 101-200 employees. This indicates that the study mainly captures perspectives from large financial institutions, which are key stakeholders in capital market development. Their involvement ensures that the findings reflect the capabilities and challenges faced by major financial players in Ethiopia, making the study relevant for policy recommendations and strategic planning.

### 4.3. Descriptive Analysis and discussion of findings

This section deals about the descriptive analysis related to the infrastructure readiness for capital markets development in Ethiopia. The researcher conducted an analysis of descriptive statistics, encompassing means, standard deviation, and frequencies.

Table 4.3: Quantitative Interpretation of 5-Point Likert Scale Measurements

<b>Likert-Scale Description</b>	<b>Likert-Scale</b>	<b>Likert Scale interval</b>
Strongly disagree	1	1.00 - 1.80
Disagree	2	1.81 - 2.60
Neutral/Uncertain	3	2.61 - 3.40
Agree	4	3.41 - 4.20
Strongly agree	5	4.21 - 5.00

**Source:** Pimentel (2010)

The interpretation of the means, as outlined in Table 4.3, is delineated thus: Strong disagreement corresponds to a point range of 1.00 - 1.80, disagreement spans from 1.81 to 2.60, neutrality falls between 2.61 and 3.40, agreement ranges from 3.41 to 4.20, and strong agreement encompasses the point range of 4.21 - 5.00 (Pimentel, 2010)

### 4.3.1. The Current Status of Infrastructure in Ethiopia’s capital markets

The development of a well-functioning capital market infrastructure is essential for fostering investment, market efficiency, and economic growth (Andersson, Berger, & Prawitz, 2023). A robust infrastructure ensures seamless trading, enhances investor confidence, and promotes transparency in market operations. This section presents an analysis of participant responses regarding the current Ethiopia’s capital market infrastructure.

Table 4.4: Response on the current infrastructure status in Ethiopia’s capital markets

Item No	Question Related to current Infrastructure	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
1	I can easily access capital market investment opportunities in Ethiopia.	7	7	6	4	3	2.59	0.257
2	The process of buying and selling securities is efficient and transparent.	12	3	5	3	4	2.41	0.294
3	The availability of trading platforms and market data meets my investment needs.	11	2	5	7	2	2.52	0.279
4	The capital market’s settlement and clearing systems are reliable and efficient.	7	8	3	4	5	2.70	0.287
5	Regulatory enforcement ensures fairness, investor protection, and market stability.	4	3	4	1	15	3.74	0.305
6	The level of institutional support (e.g., brokerage firms, financial advisors) is adequate for investors.	6	5	3	5	8	3.15	0.305
7	I am confident in the future growth and development of Ethiopia’s capital markets infrastructure.	1	6	2	9	9	3.70	0.244
<b>Aggregate Mean &amp; Std. Deviation</b>							<b>2.97</b>	<b>0.28</b>

**Source:** Survey data (2024)

The first item in Table 4.4 assesses whether investors can easily access capital market investment opportunities in Ethiopia. The mean score of 2.59 (SD = 0.257) falls within the ‘Disagree’ category, indicating that respondents perceive limited accessibility. Research suggests that well-established capital markets enhance financial inclusion and

provide broader investment options (Challapalli, 2023). Therefore, improving access through digital platforms and regulatory reforms can bridge this gap.

The second item in Table 4.4 evaluates the efficiency and transparency of the securities trading process. The mean score of 2.41 (SD = 0.294) falls within the ‘Disagree’ category, reflecting concerns regarding inefficiencies and a lack of transparency. Empirical studies highlight that transparent trading mechanisms reduce information asymmetry and foster market confidence (Swandaru & Muneeza, 2022). Strengthening regulatory oversight and automating trading systems can enhance efficiency and trust.

The third item in Table 4.4 examines whether the availability of trading platforms and market data meets investors’ needs. The mean score of 2.52 (SD = 0.279) falls within the ‘Disagree’ category, suggesting inadequacies in trading infrastructure. Prior research indicates that comprehensive market data access is essential for informed investment decisions (Petry, Koddenbrock, & Nölke, 2023). Enhancing data dissemination and expanding electronic trading platforms can address this shortfall.

The fourth item in Table 4.4 investigates the reliability and efficiency of the capital market’s settlement and clearing systems. The mean score of 2.70 (SD = 0.287) falls within the ‘Neutral/Uncertain’ category, implying that respondents have mixed perceptions. Studies show that effective settlement systems minimize transaction risks and ensure liquidity flow (Ben Ghozzi & Chaibi, 2022). Strengthening infrastructure and regulatory supervision can improve market reliability.

The fifth item in Table 4.4 assesses whether regulatory enforcement ensures fairness, investor protection, and market stability. The mean score of 3.74 (SD = 0.305) falls within the ‘Agree’ category, indicating that respondents recognize regulatory enforcement as a crucial factor in market stability. Research supports the notion that strong regulatory frameworks enhance investor protection and reduce systemic risks (Challapalli, 2023). Continued regulatory enhancements and strict enforcement mechanisms are necessary to maintain stability.

The sixth item in Table 4.4 evaluates the adequacy of institutional support for investors, such as brokerage firms and financial advisors. The mean score of 3.15 (SD = 0.305) falls within the ‘Neutral/Uncertain’ category, suggesting mixed views on institutional support availability. Literature highlights that institutional support enhances market participation

and investment efficiency (Emara & El Said, 2021). Strengthening financial advisory services and expanding brokerage operations can enhance investor experiences.

The seventh item in Table 4.4 measures investor confidence in the future growth and development of Ethiopia's capital markets infrastructure. The mean score of 3.70 (SD = 0.244) falls within the 'Agree' category, indicating optimism about future market developments. Studies emphasize that investor confidence drives market liquidity and long-term growth (Demirgüç-Kunt & Levine, 2021). Encouraging policy consistency and infrastructure investment can sustain this confidence.

The aggregate mean score of 2.97 (SD = 0.28) falls within the 'Neutral/Uncertain' category, reflecting mixed perceptions regarding Ethiopia's capital market infrastructure. While regulatory enforcement and future growth prospects are viewed positively, concerns remain regarding accessibility, efficiency, and institutional support. Addressing these issues through policy interventions, technological upgrades, and enhanced market transparency can significantly improve Ethiopia's capital market infrastructure.

#### **4.3.2. The Institutional, Financial and Infrastructure Readiness**

The readiness of financial, institutional, and infrastructure systems plays a crucial role in the successful operation of capital markets, influencing market efficiency, investor confidence, and economic growth. Recent studies highlight the importance of these factors, with research by Chinn and Ito (2022) emphasizing that well-developed financial institutions and regulatory frameworks significantly impact capital market development. The following sub sections presented the result and discussions related to readiness of financial, institutional and infrastructure in supporting capital market operations.

##### **4.3.2.1. Institutional Readiness**

The readiness of institutions to support capital market operations is a critical determinant of financial market development and economic growth. According to Caprio (2022), institutional readiness refers to the ability of legal, regulatory, and financial systems to facilitate efficient market functioning. An effective institutional framework ensures market transparency, investor protection, and compliance with international best practices. In the Ethiopian context, evaluating the preparedness of institutional mechanisms is essential for identifying gaps and developing strategic interventions to

support a robust capital market. The following section interprets and discusses participant investors' responses to various aspects of institutional readiness in Ethiopia.

Table 4.5: Response on the Institutional Readiness

Item No	Question Related to Institutional Readiness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
1	The existing legal and regulatory framework adequately supports capital market operations in Ethiopia.	6	4	8	6	3	2.85	0.254
2	The Ethiopian government has established effective regulatory institutions for overseeing capital markets.	8	5	3	8	3	2.74	0.280
3	The presence of financial regulatory bodies ensures transparency and investor protection.	11	3	5	4	4	2.52	0.294
4	Institutional collaboration among financial entities promotes capital market growth.	14	1	2	2	8	2.59	0.351
5	The capital market regulatory framework is aligned with international best practices.	2	4	5	7	9	3.63	0.251
6	Government institutions provide adequate support to financial market participants.	11	4	2	5	5	2.59	0.312
7	There is sufficient institutional capacity to regulate and supervise capital market activities.	10	3	5	5	4	2.63	0.293
<b>Aggregate Mean &amp; Std. Deviation</b>							<b>2.79</b>	<b>0.29</b>

**Source:** Survey data (2024)

The first item of Table 4.5 assesses whether the existing legal and regulatory framework adequately supports capital market operations in Ethiopia. The mean score of 2.85 (SD = 0.254) falls within the 'Neutral/Uncertain' category, indicating that respondents are uncertain about the adequacy of the legal and regulatory framework. This suggests a perceived gap in legal provisions that may hinder the smooth operation of capital markets. The relatively low standard deviation implies a moderate level of agreement among respondents. Prior research highlights that a well-defined legal framework is essential for capital market efficiency, as it provides investor confidence and ensures market stability (Caprio, 2022). Therefore, policymakers must review and strengthen existing regulations to align them with global best practices.

The second item in Table 4.5 examines whether the Ethiopian government has established effective regulatory institutions for overseeing capital markets. The mean score of 2.74 (SD = 0.280) suggests that respondents generally disagree that the current regulatory institutions are effective. This perception indicates a lack of confidence in the effectiveness of government agencies in overseeing capital market activities. A higher standard deviation reflects varying opinions among respondents. According to Challapalli (2023), efficient regulatory institutions are fundamental in reducing market manipulation and enhancing investor trust. Therefore, the Ethiopian government should prioritize capacity-building efforts for regulatory institutions to improve oversight and enforcement mechanisms.

The third item in Table 4.5 evaluates whether the presence of financial regulatory bodies ensures transparency and investor protection. With a mean score of 2.52 (SD = 0.294), the result indicates that respondents generally disagree with this statement. This suggests concerns about the effectiveness of financial regulators in maintaining transparency and safeguarding investor interests. A higher standard deviation suggests variation in respondents' views on this matter. Previous studies emphasize that well-functioning financial regulators play a crucial role in fostering investor confidence and minimizing financial misconduct (Challapalli, 2023). To address these concerns, Ethiopian financial regulatory bodies should enhance transparency measures and adopt internationally recognized investor protection policies.

The fourth item in Table 4.5 assesses whether institutional collaboration among financial entities promotes capital market growth. The mean score of 2.59 (SD = 0.351) falls within the 'Disagree' category, indicating that respondents do not perceive strong collaboration among institutions. This suggests that fragmented institutional efforts may be limiting the development of the capital market. The high standard deviation reflects diverse opinions on this issue. Research by Allen and Gale (2021) highlights the importance of institutional coordination in fostering financial market efficiency. Strengthening collaboration among regulatory and financial institutions can help drive capital market expansion and stability.

The fifth item in Table 4.5 examines whether the capital market regulatory framework is aligned with international best practices. The mean score of 3.63 (SD = 0.251) falls within the 'Agree' category, suggesting that respondents generally believe Ethiopia's

regulatory framework aligns with global standards. A low standard deviation indicates consistency in responses. According to Emara & El Said (2021), adherence to international regulatory frameworks enhances market credibility and attracts foreign investors. However, ongoing regulatory reviews are necessary to keep pace with evolving global financial regulations.

The sixth item in Table 4.5 evaluates whether government institutions provide adequate support to financial market participants. The mean score of 2.59 (SD = 0.312) indicates disagreement among respondents, suggesting that government support is perceived as insufficient. This perception aligns with studies emphasizing the role of state institutions in fostering market confidence and liquidity (Demirgüç-Kunt & Levine, 2021). Enhancing government support mechanisms, such as financial incentives and policy interventions, could improve market participation.

The seventh item in Table 4.5 investigates whether there is sufficient institutional capacity to regulate and supervise capital market activities. The mean score of 2.63 (SD = 0.293) falls within the 'Neutral/Uncertain' category, indicating that respondents are unsure about institutional capacity. A relatively low standard deviation suggests some level of agreement among participants. According to Barth, Caprio, and Levine (2022), strong regulatory capacity is essential for maintaining market integrity and stability. Ethiopia should focus on strengthening institutional capacity through training, technological advancements, and strategic partnerships.

The overall mean score of 2.79 (SD = 0.29) suggests a general uncertainty or mild disagreement regarding institutional readiness for capital market operations in Ethiopia. These findings indicate that while some regulatory structures align with global standards, there are significant gaps in institutional collaboration, government support, and regulatory capacity. Addressing these issues through legal reforms, capacity-building initiatives, and enhanced transparency measures will be crucial in fostering a well-functioning capital market.

#### 4.3.2.2. Financial Readiness

Financial readiness refers to the availability of financial infrastructure, services, and instruments that facilitate capital market operations. According to Alfiqri (2024), a well-developed financial sector enhances market efficiency by providing liquidity, reducing transaction costs, and enabling capital flow. The presence of strong banking institutions, diversified investment instruments, and adequate financial support mechanisms are essential for the growth of a capital market. In Ethiopia, assessing financial readiness helps identify gaps and inform strategic policy interventions to promote capital market development. This section presented participant responses regarding the financial readiness of Ethiopia’s capital market.

Table 4.6: Response on the Financial Readiness

Item No	Question Related to Financial Readiness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
1	Ethiopia’s financial sector is capable of supporting capital market activities.	5	9	3	5	5	2.85	0.276
2	The banking sector provides adequate financial services to facilitate stock market operations.	1	7	3	4	12	3.70	0.266
3	There are sufficient investment funds and institutional investors to support capital markets.	8	6	6	3	4	2.59	0.274
4	Capital market participants have access to diversified financial instruments.	5	3	6	2	11	3.41	0.303
5	There are adequate financial incentives for businesses to participate in the capital market.	13	1	3	5	5	2.56	0.322
6	The availability of credit and investment capital supports stock market liquidity.	7	4	2	3	11	3.26	0.332
7	The government provides sufficient financial support to strengthen capital market infrastructure.	2	4	3	6	12	3.81	0.262
<b>Aggregate Mean &amp; Std. Deviation</b>							<b>3.17</b>	<b>0.29</b>

**Source:** Survey data (2024)

The first item in Table 4.6 assesses whether Ethiopia’s financial sector is capable of supporting capital market activities. The mean score of 2.85 (SD = 0.276) falls within the ‘Neutral/Uncertain’ category, indicating that respondents are uncertain about the financial

sector's capability. This suggests that while the sector provides some level of support, it may not be fully equipped to sustain capital market operations. Demirgüç-Kunt and Levine (2021) research highlights that a well-functioning financial system is crucial for market stability and investment growth. Strengthening financial institutions through regulatory improvements and capital market integration can enhance sector readiness.

The second item in Table 4.6 examines whether the banking sector provides adequate financial services to facilitate stock market operations. The mean score of 3.70 (SD = 0.266) falls within the 'Agree' category, suggesting that respondents generally believe that banks play a positive role in supporting market activities. A relatively low standard deviation indicates consistency in responses. Studies by Beck, Demirgüç-Kunt, and Levine (2021) emphasize the role of banks in capital markets, particularly in providing liquidity and credit to investors. Expanding financial services and enhancing accessibility can further strengthen market participation.

The third item in Table 4.6 evaluates whether there are sufficient investment funds and institutional investors to support capital markets. With a mean score of 2.59 (SD = 0.274), respondents generally disagree with this statement, indicating a perceived lack of institutional investors and investment funds. This finding suggests that limited institutional involvement may hinder market depth and liquidity. Research by La Porta et al. (2023) stresses the importance of institutional investors in market efficiency and stability. Encouraging institutional participation through policy incentives and regulatory reforms could help address this challenge.

The fourth item in Table 4.6 assesses whether capital market participants have access to diversified financial instruments. The mean score of 3.41 (SD = 0.303) falls within the 'Agree' category, suggesting that respondents believe there is moderate access to financial instruments. However, the standard deviation reflects varying opinions on this matter. According to Huang (2022), financial diversification enhances investment opportunities and mitigates risks. Expanding the range of financial instruments available to investors could further strengthen market attractiveness.

The fifth item in Table 4.6 examines whether there are adequate financial incentives for businesses to participate in the capital market. The mean score of 2.56 (SD = 0.322) falls within the 'Disagree' category, indicating that respondents perceive financial incentives as insufficient. This suggests that businesses may not have enough motivation to engage

in capital market activities. Research by Allen and Gale (2022) highlights that financial incentives, such as tax benefits and subsidies, play a critical role in encouraging market participation. Enhancing government and private sector incentives could improve business engagement in the capital market.

The sixth item in Table 4.6 evaluates whether the availability of credit and investment capital supports stock market liquidity. The mean score of 3.26 (SD = 0.332) falls within the 'Neutral/Uncertain' category, indicating mixed perceptions about the adequacy of credit and investment capital. This suggests that while some credit is available, it may not be sufficient to ensure full market liquidity. Research by Rajan and Zingales (2024) emphasizes the importance of credit availability in fostering capital market development. Strengthening financial intermediation and expanding credit access could enhance liquidity and investor participation.

The seventh item in Table 4.6 investigates whether the government provides sufficient financial support to strengthen capital market infrastructure. The mean score of 3.81 (SD = 0.262) falls within the 'Agree' category, suggesting that respondents generally believe that the government plays a positive role in financial support. A low standard deviation indicates consistent responses. Studies by Stiglitz (2022) highlight the significance of government involvement in capital market development, particularly in infrastructure financing and regulatory support. Continuous government intervention and targeted financial programs could further reinforce market stability.

The overall mean score of 3.17 (SD = 0.29) indicates a moderate level of financial readiness for capital market operations in Ethiopia. While certain areas, such as banking support and government financial assistance, show positive perceptions, challenges remain in institutional investment, financial incentives, and credit availability. Addressing these challenges through regulatory reforms, financial diversification, and increased investment incentives will be crucial in ensuring a well-functioning capital market.

### 4.3.2.3. Infrastructure Readiness

Infrastructure readiness is a fundamental prerequisite for the successful development of capital markets, as it ensures efficient transaction processing, market stability, and investor confidence. According to World Bank (2023), well-established financial and technological infrastructure, including trading platforms, cybersecurity measures, and digital payment systems, is critical for capital market efficiency. Emerging economies, including Ethiopia, face challenges in establishing modern capital market infrastructure due to limited technological advancements, regulatory gaps, and insufficient collaboration between the government and private sector (IMF, 2023). This section presented participant responses regarding the infrastructure readiness of Ethiopia’s capital market..

Table 4.7: Response on the Infrastructure Readiness

Item No	Question Related to Infrastructure Readiness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
1	Ethiopia has the necessary technological infrastructure to support a modern capital market.	16	1	2	1	7	2.33	0.342
2	Trading platforms and stock exchange systems are well-developed and reliable.	10	6	6	3	2	2.30	0.249
3	Digital payment systems are effectively integrated into the capital market ecosystem.	11	5	3	5	3	2.41	0.284
4	Cybersecurity measures are sufficient to ensure safe trading and financial transactions.	11	3	5	5	3	2.48	0.284
5	There is reliable access to market data and financial information for investors.	11	6	1	2	7	2.56	0.326
6	The physical and digital infrastructure for stock exchanges is adequately prepared.	13	1	6	3	4	2.41	0.298
7	There is strong government and private sector collaboration in developing market infrastructure.	7	4	5	6	5	2.93	0.287
<b>Aggregate Mean &amp; Std. Deviation</b>							<b>2.49</b>	<b>0.30</b>

**Source:** Survey data (2024)

The first item of Table 4.7 examines whether Ethiopia has the necessary technological infrastructure to support a modern capital market. The mean score of 2.33 (SD = 0.342)

indicates that respondents generally disagree, suggesting that Ethiopia's technological infrastructure is inadequate for efficient capital market operations. This aligns with previous studies that highlight limited technological advancements as a major barrier to financial market development in emerging economies (Abdu, 2022). Strengthening digital infrastructure, such as trading platforms and secure communication networks, is essential for fostering market efficiency and investor confidence.

The second item of Table 4.7 evaluates whether trading platforms and stock exchange systems in Ethiopia are well-developed and reliable. With a mean score of 2.30 (SD = 0.249), the results indicate a general disagreement among respondents, highlighting significant gaps in trading infrastructure. This finding is consistent with research by Gomber et al. (2023), which emphasizes that underdeveloped trading platforms limit market participation and efficiency. Implementing modern trading technology and ensuring system reliability are crucial for improving Ethiopia's capital market readiness.

The third item of Table 4.7 assesses the effectiveness of digital payment system integration within the capital market ecosystem. The mean score of 2.41 (SD = 0.284) suggests that respondents perceive digital payment systems as insufficiently integrated. Studies by Demirgüç-Kunt et al. (2021) highlight that seamless digital payments enhance market efficiency and transaction speed. Ethiopia should prioritize the expansion of digital financial services and integrate them with capital market platforms to enhance accessibility and ease of transactions.

The fourth item of Table 4.7 examines the adequacy of cybersecurity measures in ensuring safe trading and financial transactions. The mean score of 2.48 (SD = 0.284) suggests that respondents disagree, indicating concerns over cybersecurity vulnerabilities. This finding is supported by the Basel Committee on Banking Supervision (2023), which underscores the importance of robust cybersecurity frameworks in protecting financial markets. Strengthening cybersecurity policies and investing in risk management systems are essential for securing Ethiopia's capital market infrastructure.

The fifth item of Table 4.7 evaluates the reliability of market data and financial information for investors. The mean score of 2.56 (SD = 0.326) suggests a near-disagreement, indicating that investors face challenges in accessing reliable market information. According to Lall and Mengistae (2023), transparent and timely financial data is crucial for informed investment decisions. Ethiopia should enhance financial

reporting standards and ensure that investors have access to accurate and up-to-date market data.

The sixth item of Table 4.7 assesses whether the physical and digital infrastructure for stock exchanges is adequately prepared. With a mean score of 2.41 (SD = 0.298), respondents express concerns about the readiness of stock market infrastructure. Studies by Claessens and Kose (2021) indicate that well-established stock exchanges contribute to market stability and liquidity. Ethiopia should focus on modernizing stock market infrastructure, including trading floors, clearing systems, and regulatory frameworks.

The seventh item of Table 4.7 examines the level of collaboration between the government and private sector in developing market infrastructure. The mean score of 2.93 (SD = 0.287) indicates a neutral stance among respondents, suggesting that efforts toward collaboration exist but remain insufficient. Research by Laeven and Valencia (2022) emphasizes the importance of strong public-private partnerships in capital market development. Strengthening government-private sector cooperation through policy incentives and joint investment in infrastructure could accelerate capital market growth in Ethiopia.

The aggregate mean score of 2.49 (SD = 0.30) reflects an overall disagreement among respondents regarding Ethiopia's infrastructure readiness for capital market operations. The relatively low standard deviation indicates consistency in responses. These findings suggest that significant improvements are needed in technological advancements, trading platforms, cybersecurity, and government-private sector collaboration. Addressing these gaps through targeted policy interventions and investment in financial technology will be critical for the successful development of Ethiopia's capital market.

### **4.3.3. Challenges and Opportunities in Capital Market Infrastructure**

Developing a well-functioning capital market infrastructure in Ethiopia presents both challenges and opportunities that are crucial for the country's economic growth and financial sector development. Key challenges include limited financial literacy, regulatory gaps, inadequate technological infrastructure, and a lack of diversified financial instruments. Recent studies highlight these dynamics, with the International Monetary Fund (IMF, 2023) emphasizing the need for robust regulatory frameworks to enhance market confidence. As Ethiopia continues to develop its capital market, addressing these challenges while leveraging opportunities will be essential for fostering a resilient and

efficient financial ecosystem. The following sub sections presented the result and discussions related to challenges and opportunities in developing a well-functioning capital market infrastructure in Ethiopia

#### 4.3.3.1. Challenges in Developing Capital Market Infrastructure

A well-functioning capital market infrastructure is critical for economic growth, as it facilitates efficient capital allocation, investment, and financial stability (Putrevu & Mertzanis, 2024). However, several challenges hinder the development of capital markets in emerging economies, including Ethiopia. These challenges often stem from inadequate regulatory frameworks, limited financial data, technological constraints, and investor awareness gaps. This section presents an analysis of key challenges affecting Ethiopia’s capital market infrastructure.

Table 4.8: Response on challenges in developing capital market infrastructure

Item No	Question Related to Challenges	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
1	The lack of a well-established regulatory framework hinders capital market development in Ethiopia.	2	4	4	6	11	3.74	0.259
2	Limited access to reliable financial data and market information discourages investor participation.	3	6	1	3	14	3.70	0.301
3	The absence of a fully operational stock exchange limits investment opportunities.	3	3	5	5	11	3.67	0.272
4	Inadequate technological infrastructure affects trading efficiency and transparency.	4	4	3	1	15	3.70	0.310
5	There is a shortage of skilled professionals in capital market operations.	4	5	3	5	10	3.44	0.294
6	High transaction costs and fees discourage investment in Ethiopia’s capital markets.	12	3	4	5	3	2.41	0.289
7	Limited investor awareness and financial literacy slow down market development.	6	3	5	3	10	3.30	0.310
<b>Aggregate Mean &amp; Std. Deviation</b>							<b>3.42</b>	<b>0.29</b>

Source: Survey data (2024)

The first item of Table 4.8 examines whether the lack of a well-established regulatory framework hinders capital market development in Ethiopia. The mean score of 3.74 (SD = 0.259) falls within the 'Agree' category, indicating that respondents perceive regulatory gaps as a major constraint. This finding aligns with prior research, which emphasizes that an effective regulatory framework is essential for market transparency, investor confidence, and financial stability (La Porta et al., 2021). To address this, policymakers should expedite the formulation of comprehensive capital market regulations.

The second item of Table 4.8 investigates whether limited access to reliable financial data and market information discourages investor participation. The mean score of 3.70 (SD = 0.301) also falls within the 'Agree' category, suggesting that respondents believe inadequate market data availability hampers investment decisions. Research indicates that efficient information dissemination enhances market participation and reduces investment risks (Gay, Mills, & Airasian, 2009). To improve this, efforts should be made to establish robust financial reporting and data-sharing mechanisms.

The third item of Table 4.8 assesses whether the absence of a fully operational stock exchange limits investment opportunities. The mean score of 3.67 (SD = 0.272) indicates that respondents agree with this statement. Empirical studies highlight that the presence of a well-functioning stock exchange promotes capital mobilization, liquidity, and economic growth (Levine & Zervos, 2021). Therefore, expediting the establishment of a stock exchange in Ethiopia is critical to expanding investment avenues.

The fourth item of Table 4.8 evaluates whether inadequate technological infrastructure affects trading efficiency and transparency. The mean score of 3.70 (SD = 0.310) suggests that respondents agree with this assertion. Previous studies show that technological advancements in trading platforms improve market efficiency, reduce transaction costs, and enhance transparency (Gay, Mills, & Airasian, 2009). Thus, investment in digital trading infrastructure should be a priority to facilitate seamless transactions.

The fifth item of Table 4.8 examines whether there is a shortage of skilled professionals in capital market operations. The mean score of 3.44 (SD = 0.294) falls within the 'Agree' category, indicating a perceived lack of expertise in the sector. Research highlights that human capital development is crucial for market growth, as skilled professionals enhance operational efficiency and investor confidence (Huang, 2022).

Policymakers should focus on capacity-building programs and professional training initiatives to address this gap.

The sixth item of Table 4.8 explores whether high transaction costs and fees discourage investment in Ethiopia's capital markets. The mean score of 2.41 (SD = 0.289) falls within the 'Disagree' category, suggesting that respondents do not perceive transaction costs as a significant barrier. However, studies indicate that competitive fee structures can attract more investors and enhance market liquidity (Putrevu & Mertzanis, 2024). Continuous monitoring of transaction costs is necessary to ensure affordability for investors.

The seventh item of Table 4.8 investigates whether limited investor awareness and financial literacy slow down market development. The mean score of 3.30 (SD = 0.310) falls within the 'Neutral/Uncertain' category, indicating that respondents are uncertain about the impact of financial literacy on market development. Previous studies emphasize that financial literacy plays a vital role in investment decision-making and risk management (Lusardi & Mitchell, 2021). Policymakers should implement educational initiatives to enhance investor knowledge and participation.

The aggregate mean of 3.42 (SD = 0.29) suggests that, on average, respondents lean toward 'Agree' regarding the challenges affecting capital market infrastructure in Ethiopia. This indicates that while certain factors, such as regulatory frameworks and technological infrastructure, are widely recognized as barriers, other areas, such as transaction costs, are perceived with more uncertainty. Addressing these challenges through regulatory reforms, technological investments, and financial literacy programs will be crucial for the successful development of Ethiopia's capital markets.

#### **4.3.3.2. Opportunities in Developing Capital Market Infrastructure**

The development of a capital market infrastructure presents significant opportunities for Ethiopia's economic growth. World Bank (2023) research highlights emerging markets can leverage economic expansion, policy reforms, technological advancements and increased foreign investments to establish robust capital markets. Strengthening financial literacy and fostering collaboration among financial institutions and regulatory bodies are also essential to market development. The following section presents the analysis of the responses regarding the opportunities in developing Ethiopia's capital market infrastructure.

Table 4.9: Response on the opportunities in developing capital market infrastructure

Item No	Question Related to Opportunities	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
1	Ethiopia's growing economy presents opportunities for capital market development.	5	1	3	6	12	3.70	0.296
2	Government initiatives and policy reforms support the establishment of a capital market.	3	6	1	2	15	3.74	0.305
3	The increasing interest from foreign investors enhances capital market growth prospects.	8	4	3	1	11	3.11	0.339
4	Advancements in financial technology (FinTech) can improve capital market efficiency.	4	2	2	7	12	3.78	0.284
5	Establishing a stock exchange will create more investment opportunities for businesses and individuals.	2	5	5	2	13	3.70	0.276
6	Expanding financial literacy programs can increase investor participation in the capital market.	5	2	5	6	9	3.44	0.289
7	Strengthening collaborations between financial institutions and regulatory bodies can enhance market stability.	4	5	4	1	13	3.52	0.308
<b>Aggregate Mean &amp; Std. Deviation</b>							<b>3.57</b>	<b>0.30</b>

**Source:** Survey data (2024)

The first item of Table 4.9 examines whether Ethiopia's growing economy presents opportunities for capital market development. The mean score of 3.70 (SD = 0.296) falls within the 'Agree' category, indicating that respondents recognize economic growth as a key driver of capital market expansion. Prior studies suggest that sustained GDP growth positively influences capital market performance by increasing investor confidence and business expansion opportunities (Gay, Mills, & Airasian, 2009). To capitalize on this, policymakers should align economic policies with capital market objectives to ensure sustainable growth.

The second item of Table 4.9 evaluates whether government initiatives and policy reforms support the establishment of a capital market. The mean score of 3.74 (SD =

0.305) suggests that respondents agree with this statement, reflecting a positive perception of governmental efforts. Research highlights that proactive policies, such as regulatory frameworks and incentives, play a crucial role in capital market development (Allen, Faia, Haliassos, & Langenbacher, 2024). Continued policy reforms and legislative clarity will be necessary to accelerate market establishment and investor participation.

The third item of Table 4.9 assesses whether the increasing interest from foreign investors enhances capital market growth prospects. The mean score of 3.11 (SD = 0.339) falls within the 'Neutral/Uncertain' category, indicating that respondents are uncertain about the extent of foreign investor influence. Studies suggest that foreign investments bring capital inflow and market expertise, but regulatory challenges and political risks may impact their effectiveness (Gay, Mills, & Airasian, 2009). Creating a more transparent and investor-friendly environment will be essential to attracting sustainable foreign investment.

The fourth item of Table 4.9 examines whether advancements in financial technology (FinTech) can improve capital market efficiency. The mean score of 3.78 (SD = 0.284) suggests strong agreement among respondents. Previous research indicates that FinTech innovations, such as digital trading platforms and blockchain technology, enhance market efficiency, transparency, and accessibility (Gomber, Koch, & Siering, 2023). Encouraging FinTech adoption through regulatory support and infrastructure investment can significantly improve capital market operations.

The fifth item of Table 4.9 evaluates whether establishing a stock exchange will create more investment opportunities for businesses and individuals. The mean score of 3.70 (SD = 0.276) falls within the 'Agree' category, reflecting a positive outlook on stock market establishment. Empirical evidence supports that a functional stock exchange facilitates capital raising, enhances liquidity, and diversifies investment options (Gomber, Koch, & Siering, 2023). Accelerating the implementation of a stock exchange will be crucial in unlocking Ethiopia's investment potential.

The sixth item of Table 4.9 explores whether expanding financial literacy programs can increase investor participation in the capital market. The mean score of 3.44 (SD = 0.289) suggests that respondents agree, though with a moderate level of certainty. Studies emphasize that financial education enhances investment decisions, reduces market risks, and broadens market participation (Gomber, Koch, & Siering, 2023). Strengthening

financial literacy initiatives through targeted awareness campaigns and educational programs will be vital in fostering investor engagement.

The seventh item of Table 4.9 assesses whether strengthening collaborations between financial institutions and regulatory bodies can enhance market stability. The mean score of 3.52 (SD = 0.308) falls within the ‘Agree’ category, indicating that respondents recognize the importance of institutional coordination. Research suggests that strong regulatory and institutional frameworks contribute to market transparency, investor protection, and financial stability (Bindseil & Pantelopoulos, 2023). Enhancing cooperation between regulators and financial institutions will be essential in mitigating market risks and ensuring long-term stability.

The aggregate mean of 3.57 (SD = 0.30) suggests that respondents generally agree on the opportunities available for capital market infrastructure development in Ethiopia. While economic growth, government initiatives, and technological advancements are perceived positively, uncertainty remains regarding foreign investor influence. Addressing these opportunities through regulatory enhancements, financial education, and technological investments will be critical in fostering a well-functioning capital market in Ethiopia.

#### **4.3.4. Government Initiatives and Private Sector Involvement**

The growth and development of capital market infrastructure rely on effective collaboration between government initiatives and private sector involvement. Governments play a crucial role by implementing regulatory reforms, establishing strong legal frameworks, and providing policy support to create a conducive investment climate. Meanwhile, the private sector contributes through financial innovation, technological advancements, and increased market participation, enhancing liquidity and efficiency. Recent studies highlight this synergy, with the IMF (2023) emphasizing that well-designed government policies can attract private investment and deepen capital markets. The following sub sections presented the result and discussions related to the role of government initiatives and private sector involvement in fostering capital market growth and infrastructure development.

##### **4.3.4.1. Government Initiatives in Capital Market Growth**

Government initiatives play a crucial role in fostering capital market growth and infrastructure development by creating a regulatory framework, providing financial incentives, and ensuring investor protection. According to recent literature, a well-

developed capital market is essential for economic growth, as it mobilizes savings, facilitates investment, and enhances financial stability (Contractor, Nuruzzaman, Dangol, & Raghunath, 2021). Governments worldwide implement policies such as tax incentives, public-private partnerships, and financial literacy programs to enhance market participation and efficiency (World Bank, 2023). This section presents the analysis of the responses regarding government initiatives in Ethiopia’s capital market development.

Table 4.10: Response on the government initiatives in capital market growth

Item No	Question Related to Government Initiatives	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
1	The Ethiopian government has shown strong commitment to establishing a capital market.	6	7	4	5	5	2.85	0.281
2	Government policies and regulations provide a conducive environment for capital market development.	10	5	3	3	6	2.63	0.312
3	The establishment of regulatory bodies ensures transparency and investor protection in the capital market.	1	6	4	9	7	3.56	0.235
4	Government-backed financial literacy programs effectively raise awareness of capital market opportunities.	9	3	8	5	2	2.56	0.258
5	Public-private partnerships play a significant role in financing capital market infrastructure.	2	5	3	4	13	3.78	0.274
6	The government has facilitated technological advancements to enhance market efficiency and trading processes.	7	11	3	3	3	2.41	0.252
7	Tax incentives and investment policies encourage participation in Ethiopia’s capital market.	11	5	4	3	4	2.41	0.289
<b>Aggregate Mean &amp; Std. Deviation</b>							<b>2.88</b>	<b>0.27</b>

**Source:** Survey data (2024)

The first item in Table 4.10 assesses whether the Ethiopian government has demonstrated a strong commitment to establishing a capital market. The mean score of 2.85 (SD = 0.281) falls within the ‘Neutral/Uncertain’ category, indicating that respondents are uncertain about the government’s commitment. This uncertainty suggests that while some

initiatives may be in place, there is a lack of clear communication or tangible progress in capital market development. Prior studies highlight that government commitment is a key driver of capital market success, as seen in emerging economies where proactive policies have led to significant market expansion (Mishra & Mohanty, 2021). To strengthen confidence, the government should enhance transparency and actively engage stakeholders in policy formulation.

The second item in Table 4.10 examines whether government policies and regulations provide a conducive environment for capital market development. The mean score of 2.63 (SD = 0.312) falls at the lower end of the 'Neutral/Uncertain' range, suggesting that respondents are skeptical about the effectiveness of current policies. This finding aligns with global research, which emphasizes that clear and stable regulatory frameworks are critical for attracting investors and ensuring market stability (Singh & Sharma, 2022). Policymakers should address regulatory gaps and align Ethiopia's capital market policies with international best practices.

The third item in Table 4.10 evaluates whether the establishment of regulatory bodies ensures transparency and investor protection. The mean score of 3.56 (SD = 0.235) falls within the 'Agree' category, indicating a positive perception among respondents. This finding supports previous research, which underscores the role of regulatory agencies in reducing market manipulation and increasing investor confidence (Demirgüç-Kunt et al., 2021). However, the moderate standard deviation suggests some variability in responses, possibly due to differing experiences with regulatory enforcement. Strengthening oversight mechanisms and increasing public awareness could further enhance confidence in regulatory institutions.

The fourth item in Table 4.10 assesses the effectiveness of government-backed financial literacy programs in raising awareness of capital market opportunities. The mean score of 2.56 (SD = 0.258) falls within the 'Disagree' category, indicating that respondents perceive these programs as ineffective. Research has shown that financial literacy is crucial for market participation, particularly in developing economies where retail investor engagement is low (Gay, Mills, & Airasian, 2009). To improve market participation, the government should expand financial education initiatives and integrate them into national education programs.

The fifth item in Table 4.10 explores the role of public-private partnerships in financing capital market infrastructure. The mean score of 3.78 ( $SD = 0.274$ ) falls within the 'Agree' category, suggesting that respondents recognize the significance of such collaborations. This aligns with global evidence that public-private partnerships facilitate infrastructure development and market expansion by leveraging private sector expertise and resources (Della Croce et al., 2022). Strengthening these partnerships through clear policy frameworks can further enhance infrastructure financing.

The sixth item in Table 4.10 evaluates whether the government has facilitated technological advancements to enhance market efficiency and trading processes. The mean score of 2.41 ( $SD = 0.252$ ) falls within the 'Disagree' category, indicating dissatisfaction with technological progress. Prior research emphasizes that technology plays a vital role in capital market efficiency by improving transparency and reducing transaction costs (Pagano et al., 2023). To address this issue, the government should invest in digital infrastructure and modern trading platforms.

The seventh item in Table 4.10 assesses whether tax incentives and investment policies encourage participation in Ethiopia's capital market. The mean score of 2.41 ( $SD = 0.289$ ) falls within the 'Disagree' category, reflecting a perception that existing tax incentives are inadequate. Studies indicate that well-structured tax policies can significantly influence investor behavior and capital market development (Allen, Faia, Haliassos, & Langenbucher, 2024). Enhancing tax incentives and reducing bureaucratic hurdles could attract more investors and stimulate market growth.

The aggregate mean of 2.88 ( $SD = 0.27$ ) suggests an overall neutral stance toward government initiatives in fostering capital market growth. This indicates that while some positive efforts are recognized, there are still significant concerns regarding regulatory frameworks, technological advancements, and financial literacy programs. Research highlights that a coordinated policy approach addressing these challenges can accelerate capital market development and economic growth (Gay, Mills, & Airasian, 2009). To enhance market confidence and growth, Ethiopian policymakers should prioritize regulatory reforms, technological investments, and investor education initiatives.

#### 4.3.4.2. Private Sector Involvement in Capital Market Growth

The private sector plays a crucial role in fostering capital market growth and infrastructure development by providing financial resources, innovation, and expertise. According to recent studies, private sector participation enhances market efficiency, increases liquidity, and ensures sustainable economic development (World Bank, 2023). The involvement of financial institutions, institutional investors, and private enterprises helps to bridge financing gaps and introduce modern technological infrastructure necessary for efficient trading and investment operations. This section presents the analysis of the responses related to private sector involvement in Ethiopia's capital market development.

Table 4.11: Response on private sector involvement in capital market growth

Item No	Question Related to Private Sector Involvement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
1	Private sector investment is crucial for the successful development of Ethiopia's capital market.	3	4	2	6	12	3.74	0.280
2	Financial institutions are actively participating in the development of capital market infrastructure.	3	4	7	0	13	3.59	0.289
3	The private sector is sufficiently engaged in capital market advocacy and policy discussions.	12	4	4	2	5	2.41	0.303
4	There is adequate private sector funding to support capital market operations and expansion.	4	4	2	6	11	3.59	0.294
5	Private companies have the necessary technological capacity to support modern trading platforms.	9	1	6	9	2	2.78	0.274
6	Institutional investors play a key role in driving capital market growth in Ethiopia.	2	6	4	1	14	3.70	0.287
7	The private sector is motivated by sufficient incentives to invest in Ethiopia's capital market.	10	5	4	4	4	2.52	0.289
<b>Aggregate Mean &amp; Std. Deviation</b>							<b>3.19</b>	<b>0.29</b>

Source: Survey data (2024)

The first item in Table 4.11 assesses whether private sector investment is crucial for the successful development of Ethiopia's capital market. The mean score of 3.74 (SD = 0.280) falls within the 'Agree' category, indicating that respondents generally recognize the importance of private sector investment. The relatively low standard deviation suggests a moderate level of agreement among participants. Prior studies emphasize that private investment accelerates capital market growth by enhancing liquidity and market stability (Shleifer & Vishny, 2024). This finding highlights the need for policies that attract and incentivize private investors.

The second item in Table 4.11 evaluates the active participation of financial institutions in the development of capital market infrastructure. The mean score of 3.59 (SD = 0.289) also falls within the 'Agree' category, suggesting that respondents perceive financial institutions as key players in infrastructure development. A study by Levine (2022) confirms that financial institutions serve as intermediaries, facilitating capital allocation and improving market accessibility. Therefore, strengthening the role of financial institutions can further enhance market efficiency.

The third item in Table 4.11 examines whether the private sector is sufficiently engaged in capital market advocacy and policy discussions. The mean score of 2.41 (SD = 0.303) falls within the 'Disagree' category, indicating that respondents perceive limited involvement of the private sector in advocacy efforts. Research indicates that active private sector participation in policymaking leads to more investor-friendly regulations and increased market stability (Pagano & Volpin, 2021). Thus, policymakers should encourage greater private sector engagement in regulatory discussions to enhance market development.

The fourth item in Table 4.11 assesses whether there is adequate private sector funding to support capital market operations and expansion. The mean score of 3.59 (SD = 0.294) falls within the 'Agree' category, suggesting that respondents acknowledge the role of private funding in market development. Previous studies highlight that capital market expansion is largely driven by private sector financing, which enables broader investment opportunities and financial inclusivity (Ben Ghoszi & Chaibi, 2022). Enhancing access to capital and investment incentives can further strengthen this contribution.

The fifth item in Table 4.11 investigates whether private companies possess the necessary technological capacity to support modern trading platforms. The mean score of 2.78 (SD

= 0.274) falls within the ‘Neutral/Uncertain’ category, indicating uncertainty among respondents regarding technological readiness. Literature suggests that advanced financial technologies are critical for the efficiency and transparency of capital markets (Gomber et al., 2023). To address this uncertainty, private firms should invest in modern trading infrastructure and digital transformation.

The sixth item in Table 4.11 explores the role of institutional investors in driving capital market growth in Ethiopia. The mean score of 3.70 (SD = 0.287) falls within the ‘Agree’ category, demonstrating recognition of institutional investors’ importance. Studies confirm that institutional investors enhance market liquidity, stabilize prices, and encourage corporate governance improvements (Ben Ghazzi & Chaibi, 2022). Encouraging institutional investments can further contribute to market depth and resilience.

The seventh item in Table 4.11 assesses whether the private sector is motivated by sufficient incentives to invest in Ethiopia’s capital market. The mean score of 2.52 (SD = 0.289) falls within the ‘Disagree’ category, indicating that respondents perceive insufficient incentives for private investment. Previous research emphasizes that regulatory frameworks and financial incentives significantly impact private sector engagement in capital markets (Demirgüç-Kunt & Levine, 2021). Policymakers should introduce tax incentives and risk mitigation strategies to boost private sector participation.

The aggregate mean score of 3.19 (SD = 0.29) falls within the ‘Neutral/Uncertain’ category, indicating a mixed perception of private sector involvement in capital market growth. This suggests that while some aspects of private sector engagement are recognized, uncertainties remain regarding technological readiness, policy advocacy, and investment incentives. To ensure effective private sector participation, regulatory bodies should implement policies that address these concerns and align with international best practices.

#### **4.4. Qualitative analysis**

To achieve the objective of this study two type of semi-structured interview guiding questions were developed for Ministry of Finance (MoF) and Ethiopian Securities Exchange (ESX) experts respectively. Interview was conducted with two ESX experts and with one MoF expert. This section presented the narrative analysis of the result.

**Question one for ESX:** How would you describe the current state of Ethiopia’s capital market infrastructure, particularly in terms of trading platforms, settlement systems, and financial institutions?”

##### **ESX Expert A Response:**

The first expert from the Ethiopian Securities Exchange (ESX) described Ethiopia’s capital market infrastructure as being in its early stages, with several foundational elements still under development. They noted that while efforts have been made to establish a regulatory framework, there are still gaps in enforcement mechanisms and market surveillance systems. Currently, there is no fully operational electronic trading platform, which limits market efficiency and investor participation. The expert emphasized the need for a robust clearing and settlement system to ensure transaction security and reduce settlement risks. They also highlighted the importance of leveraging technology to develop a centralized trading platform that aligns with international best practices. According to the expert, while the regulatory framework is being structured to facilitate capital market growth, further refinements are required to enhance transparency, investor protection, and overall market confidence.

##### **ESX Expert B Response:**

The second ESX expert acknowledged the progress made in establishing Ethiopia’s capital markets but pointed out that significant infrastructural challenges remain. They explained that the absence of an integrated trading system currently hinders market efficiency, making it difficult for investors to access real-time market data and execute trades seamlessly. The expert also highlighted the necessity of a well-functioning clearing and settlement system to prevent transaction delays and enhance liquidity. They further noted that while the Ethiopian Capital Market Authority (ECMA) is working towards regulatory improvements, enforcement mechanisms need to be strengthened to ensure compliance and market stability. The expert suggested that adopting digital trading

platforms, coupled with a streamlined regulatory process, would be critical in enhancing the readiness of Ethiopia's capital markets and attracting both local and international investors.

**Question one for MoF:** How would you describe the current state of Ethiopia's capital market infrastructure, particularly in terms of trading platforms, settlement systems, and financial institutions?

### **MoF Expert Response**

The Ministry of Finance (MoF) expert described Ethiopia's capital market infrastructure as being in its early stages, with significant gaps in trading platforms, settlement systems, and institutional capacity. While efforts are underway to establish the Ethiopian Securities Exchange (ESX), the lack of a fully operational trading platform remains a key limitation. The absence of automated trading systems and real-time market data access presents challenges for market efficiency and investor participation. Additionally, the expert pointed out that financial institutions, including banks and investment firms, are still adapting to capital market operations, with limited experience in underwriting and securities brokerage. The MoF expert added that the current financial infrastructure lacks a robust clearing and settlement mechanism that aligns with international best practices. Most transactions in Ethiopia's financial sector still rely on traditional banking systems, which may not be sufficient for handling high-frequency capital market transactions. The expert emphasized the need for improved regulatory oversight to ensure that financial institutions are equipped to support securities trading. Moreover, the expert mentioned that developing a strong capital market infrastructure requires collaboration between regulatory bodies, financial institutions, and technology providers to establish efficient and transparent trading and settlement mechanisms. Strengthening these areas is essential for ensuring investor confidence and fostering capital market growth in Ethiopia.

In conclusion, The ESX experts described Ethiopia's capital market infrastructure as being in its early stages, with key challenges in regulatory enforcement, market surveillance, and the absence of an integrated electronic trading platform. They emphasized the need for a robust clearing and settlement system to enhance transaction security and liquidity while advocating for the adoption of digital trading platforms to improve efficiency and attract investors. Although regulatory frameworks are being developed, enforcement mechanisms require strengthening to ensure compliance and

market stability. Similarly, the MoF expert highlighted significant gaps in trading platforms, settlement systems, and institutional capacity, noting that financial institutions still lack experience in capital market operations. The reliance on traditional banking systems for transactions poses additional challenges, making regulatory oversight and technological advancements crucial for the market's development. The expert stressed the importance of collaboration among regulatory bodies, financial institutions, and technology providers to establish a transparent and efficient capital market in Ethiopia.

**Question two for ESX:** In your assessment, how prepared are Ethiopia's financial institutions and regulatory bodies to support efficient capital market operations, and what gaps still exist?

**ESX Expert A Response:**

The first Ethiopian Securities Exchange (ESX) expert acknowledged that Ethiopia's financial institutions and regulatory bodies have made progress in preparing for capital market operations but emphasized that significant gaps remain. According to the expert, the regulatory framework, led by the Ethiopian Capital Market Authority (ECMA), is a crucial step toward establishing a well-functioning capital market. However, financial institutions, including banks and investment firms, are still in the early stages of adapting to capital market operations. Many institutions lack the necessary expertise in securities trading, underwriting, and investment advisory services. The expert noted that while some financial institutions have shown interest in capital market participation, their operational structures and technological capacity need further enhancement. Additionally, there is a need for clearer regulations on market supervision, investor protection, and risk management to ensure a stable and transparent trading environment.

**ESX Expert B Response:**

The second ESX expert highlighted that one of the major gaps in Ethiopia's financial infrastructure is the absence of sophisticated trading and settlement systems. Existing financial institutions rely on conventional banking mechanisms that are not designed for high-frequency trading and real-time market transactions. The expert emphasized the importance of integrating advanced digital trading platforms and automated clearing and settlement systems to enhance efficiency. Furthermore, the expert pointed out that regulatory bodies, including the Ministry of Finance and the National Bank of Ethiopia,

must work closely with market participants to build institutional capacity and provide training on capital market operations. The expert also stressed that investor education and awareness programs are crucial to ensuring active market participation. Without a well-informed investor base and strong institutional backing, the development of Ethiopia's capital market may face challenges in achieving sustainability and long-term growth.

**Question two for MoF:** From your perspective, how prepared are Ethiopia's financial institutions and regulatory bodies to support the operations of a capital market, and what key improvements are necessary?

**MoF Expert Response:**

The Ministry of Finance (MoF) expert acknowledged that Ethiopia's financial institutions and regulatory bodies have made notable progress in preparing for the establishment of a capital market, but significant gaps remain. They highlighted that the enactment of the Capital Markets Proclamation and the formation of regulatory bodies such as the Ethiopian Capital Market Authority (ECMA) are critical milestones that demonstrate the government's commitment. However, they pointed out that financial institutions, particularly banks and insurance companies, still have limited exposure to capital market operations and lack the technical expertise required to support a fully functional securities exchange. The expert also noted that Ethiopia's financial sector remains heavily bank-centric, with limited diversification of investment instruments. As a result, institutions must build capacity in capital market operations, risk assessment, and financial product innovation to effectively facilitate market transactions.

Regarding key improvements, the MoF expert emphasized the need for regulatory strengthening, institutional capacity building, and technological infrastructure development. They stressed that ECMA should enhance its regulatory oversight mechanisms to ensure transparency, investor protection, and compliance with international best practices. Additionally, financial institutions must invest in training programs to equip professionals with the necessary skills in securities trading, portfolio management, and investment analysis. The expert also underscored the importance of developing robust digital platforms for trading, settlement, and reporting to enhance efficiency and minimize risks associated with manual processes. Furthermore, they suggested that fostering collaboration between government agencies, financial

institutions, and international capital market experts would accelerate Ethiopia's market readiness and improve investor confidence.

In general, the ESX expert emphasized that while Ethiopia has made progress in establishing a regulatory framework for its capital market, financial institutions still face significant gaps in expertise, operational structures, and technological capacity. They highlighted the need for clearer regulations, investor protection, and risk management measures. Additionally, the expert pointed out that the country lacks sophisticated trading and settlement systems, stressing the importance of advanced digital platforms, institutional capacity building, and investor education to ensure market efficiency and sustainability. Meanwhile, the MoF expert acknowledged the government's commitment through regulatory milestones such as the Capital Markets Proclamation and the Ethiopian Capital Market Authority (ECMA) but noted that Ethiopia's financial sector remains heavily bank-centric with limited capital market exposure. They emphasized the need for regulatory strengthening, institutional capacity building, and technological advancements to enhance transparency, investor confidence, and efficient market operations. Collaboration between government bodies, financial institutions, and international experts was also recommended to accelerate market readiness.

**Question three for ESX:** What are the main challenges and opportunities that Ethiopia faces in establishing a robust and well-functioning capital market infrastructure?

**ESX Expert A Response:**

The first Ethiopian Securities Exchange (ESX) expert highlighted that one of the primary challenges in establishing a robust capital market infrastructure in Ethiopia is the lack of an advanced technological framework for trading and settlement. The expert noted that the country currently lacks a fully automated trading system, which is essential for ensuring efficiency, transparency, and investor confidence. Additionally, financial institutions and brokerage firms have limited experience in capital market operations, which creates challenges in providing essential market services such as underwriting, asset management, and securities trading. Another key issue is the relatively low level of public awareness and investor education regarding capital markets, which may slow down market participation and liquidity. Furthermore, the expert pointed out that the existing legal and regulatory framework, while a positive step, still requires further refinement to

align with international best practices and address gaps related to market supervision, investor protection, and corporate governance.

Despite these challenges, the expert also highlighted several opportunities that Ethiopia can leverage to build a strong capital market infrastructure. The establishment of the Ethiopian Securities Exchange (ESX) itself is a significant milestone that can attract both domestic and foreign investors. The expert emphasized that Ethiopia's growing economy and expanding financial sector provide a strong foundation for capital market development. Additionally, there is increasing interest from institutional investors, such as pension funds and insurance companies, which could enhance market liquidity and stability. The expert also pointed to advancements in financial technology (fintech) as a key opportunity, suggesting that digital solutions could streamline trading, settlement, and investor engagement. With the right regulatory support and infrastructure investments, Ethiopia has the potential to develop a capital market that facilitates economic growth and capital mobilization.

#### **ESX Expert B Response:**

The second ESX expert reiterated that regulatory and institutional readiness remains a major challenge in capital market development. The expert explained that Ethiopia's financial sector has been historically dominated by traditional banking services, with limited exposure to securities trading and investment banking. As a result, many financial institutions lack the technical expertise and risk management frameworks necessary for efficient capital market operations. Additionally, the expert identified capital market accessibility as another key challenge, noting that limited technological infrastructure and high transaction costs could deter small and medium-sized enterprises (SMEs) and individual investors from participating in the market. Moreover, the expert raised concerns about foreign investor participation, explaining that regulatory restrictions and foreign exchange controls may limit the inflow of capital from international markets, which could otherwise help accelerate market development.

However, the expert also emphasized that Ethiopia's capital market development presents significant opportunities for economic diversification and investment growth. The expert pointed out that the Ethiopian government has demonstrated strong commitment to financial sector reforms, which could create a conducive environment for market expansion. Additionally, the presence of large state-owned enterprises (SOEs) provides

an opportunity for initial public offerings (IPOs), which could serve as a catalyst for market activity. The expert also noted that the rise of digital financial services in Ethiopia, including mobile banking and digital payment platforms, could facilitate broader market access and participation. By leveraging these opportunities and addressing the existing challenges through strategic policy interventions, Ethiopia can establish a well-functioning capital market that supports economic growth and financial inclusion.

**Question three for MoF:** What do you see as the biggest challenges in establishing a fully functional capital market in Ethiopia, and what potential opportunities exist for overcoming these challenges?

**MoF Expert Response:**

The Ministry of Finance (MoF) expert identified several major challenges in establishing a fully functional capital market in Ethiopia, with regulatory capacity, financial sector readiness, and investor awareness being the most critical. They explained that while the government has taken steps to establish a regulatory framework, institutions like the Ethiopian Capital Market Authority (ECMA) are still in their infancy and require further strengthening in terms of technical expertise, enforcement mechanisms, and policy coordination. Additionally, Ethiopia's financial sector has historically been dominated by commercial banking, with limited experience in securities trading and investment management. This lack of exposure presents a challenge in developing the necessary market infrastructure, financial instruments, and institutional investor base. The expert also pointed out that low public awareness and trust in capital market instruments pose a significant barrier to participation, as many potential investors and businesses remain unfamiliar with securities trading, stock issuance, and the benefits of capital markets as an alternative source of financing.

Despite these challenges, the expert highlighted several opportunities that could facilitate the successful development of Ethiopia's capital market. They emphasized that strong government commitment and recent reforms in the financial sector provide a solid foundation for market growth. The expert noted that the increasing interest from international investors and development partners presents an opportunity to leverage global expertise, attract foreign capital, and build a resilient market ecosystem. Additionally, Ethiopia's growing private sector and emerging digital financial services offer avenues to integrate capital market operations with innovative technologies,

ensuring efficiency and accessibility. The expert suggested that a phased approach—starting with investor education, capacity building for financial institutions, and the gradual introduction of capital market instruments—would help mitigate risks and create a sustainable and well-regulated market. Ultimately, they expressed optimism that, with the right policy interventions and strategic partnerships, Ethiopia can successfully establish a capital market that contributes to long-term economic growth and financial sector diversification.

In summary, The ESX experts identified key challenges in Ethiopia’s capital market development, including the lack of an advanced technological infrastructure for trading and settlement, limited experience among financial institutions, low public awareness, and gaps in the legal and regulatory framework. They also highlighted concerns about accessibility, high transaction costs, and regulatory restrictions on foreign investors. However, they pointed to significant opportunities, such as Ethiopia’s growing economy, increasing institutional investor interest, fintech advancements, and government-led financial sector reforms. The experts emphasized that leveraging digital financial services and state-owned enterprise IPOs could boost market activity. Similarly, the MoF expert acknowledged regulatory capacity, financial sector readiness, and low investor awareness as major hurdles, stressing that institutions like ECMA need further strengthening. They highlighted the government’s commitment to financial reforms, international investor interest, and digital financial services as key enablers for capital market growth. The MoF expert recommended a phased approach focusing on investor education, capacity building, and gradual market introduction to ensure a sustainable and well-regulated capital market in Ethiopia.

**Question four for ESX:** How do you perceive the role of government policies and private sector participation in shaping and accelerating the development of capital market infrastructure in Ethiopia?

**ESX Expert A Response:**

The first ESX expert emphasized that government policies play a foundational role in shaping Ethiopia’s capital market infrastructure. The expert highlighted that the government’s commitment, reflected through legislative frameworks such as the Capital Markets Proclamation, is crucial in creating an enabling environment. The expert noted that while Ethiopia is still in the early stages of capital market development, the

regulatory framework must be robust yet flexible enough to accommodate market dynamics. They stressed that policies should encourage investor confidence by ensuring transparency, accountability, and fair trading practices. Additionally, the expert pointed out that regulatory bodies such as the Ethiopian Capital Market Authority (ECMA) must have the necessary institutional capacity to oversee market activities effectively.

Regarding private sector participation, the expert underscored that capital markets cannot thrive without active engagement from private investors, financial institutions, and corporate entities. They mentioned that the private sector plays a crucial role in providing liquidity, introducing innovative financial instruments, and driving overall market efficiency. However, they cautioned that the government should strike a balance between regulation and liberalization to avoid over-restricting market activities. The expert also emphasized the need for financial literacy programs and awareness campaigns to encourage domestic participation, as many businesses and investors in Ethiopia have limited exposure to capital markets.

#### **ESX Expert B Response:**

The second ESX expert approached the question from a strategic perspective, focusing on the interplay between policy direction and private sector engagement. They argued that government policies should not only establish the legal framework but also provide incentives for capital market growth. This includes tax benefits for publicly listed companies, streamlined procedures for initial public offerings (IPOs), and foreign investor-friendly regulations. According to the expert, while the government has taken a positive step by establishing ESX, continuous policy refinement is necessary to adapt to global market trends and ensure competitiveness. They also noted that capital market development requires strong intergovernmental coordination between the Ministry of Finance, the National Bank of Ethiopia, and the Ethiopian Capital Market Authority to create a cohesive regulatory ecosystem.

Regarding private sector involvement, the expert highlighted the importance of fostering partnerships between the government and financial institutions, banks, and fintech firms. They stressed that private sector actors should not only participate as investors but also as key stakeholders in market development. The expert suggested that encouraging institutional investors such as pension funds and insurance companies to participate in the securities market would enhance market depth and stability. Additionally, they

emphasized that technological infrastructure should be a priority, as digital trading platforms and secure transaction mechanisms are essential for efficiency and investor trust. Lastly, the expert pointed out that a well-developed capital market would significantly benefit Ethiopia's economy by mobilizing long-term financing for businesses and infrastructure projects, ultimately contributing to sustainable economic growth.

**Question four for MoF:** What specific initiatives has the government undertaken to promote capital market development in Ethiopia, and how do you see the role of the private sector in complementing these efforts?

**MoF Expert Response:**

The Ministry of Finance (MoF) expert highlighted several key initiatives that the Ethiopian government has undertaken to promote capital market development. One of the most significant steps is the enactment of the Capital Markets Proclamation, which provides the legal foundation for establishing and regulating a securities exchange. Additionally, the government has set up the Ethiopian Capital Market Authority (ECMA) as the primary regulatory body to oversee market operations, ensure compliance, and protect investors. The expert also mentioned that efforts are underway to build the necessary financial infrastructure, including the development of trading platforms and clearing mechanisms. Furthermore, the government has been working on capacity-building programs aimed at training financial sector professionals and policymakers to enhance their understanding of capital markets. These initiatives, coupled with ongoing reforms to modernize the financial sector, demonstrate the government's commitment to creating an enabling environment for a functioning securities market.

Regarding the role of the private sector, the expert emphasized that its participation is critical in complementing government efforts and ensuring the success of the capital market. They noted that financial institutions, businesses, and investors must actively engage in securities trading, capital raising, and investment activities to provide liquidity and drive market growth. The expert also stressed the importance of private sector innovation, particularly in financial technology and digital trading solutions, which can enhance market efficiency and accessibility. Moreover, they highlighted that private sector involvement in investor education and awareness campaigns would be instrumental in fostering public trust and encouraging broader participation. The expert concluded by

stating that a strong partnership between the government and the private sector is essential for sustainable capital market development, as private entities bring market expertise, investment capital, and competitive dynamics that can strengthen the overall financial ecosystem.

In summary, the ESX expert emphasized that government policies, particularly the Capital Markets Proclamation, are crucial for establishing a strong regulatory framework that ensures transparency, accountability, and investor confidence. They highlighted the importance of balancing regulation with market liberalization while stressing the role of the private sector in providing liquidity, financial innovation, and overall market efficiency. Additionally, they pointed out the need for financial literacy programs to boost domestic participation. Another ESX expert focused on strategic policy incentives such as tax benefits, streamlined IPO processes, and foreign investor-friendly regulations while advocating for intergovernmental coordination and digital infrastructure to enhance market competitiveness. They also emphasized that institutional investors, fintech firms, and banks should actively contribute to market development. The MoF expert reinforced the government's commitment through legal reforms, infrastructure development, and capacity-building initiatives, noting that private sector engagement in securities trading, financial technology, and investor education is essential for a thriving capital market. All experts agreed that a strong public-private partnership is key to ensuring the sustainability and efficiency of Ethiopia's capital market.

## CHAPTER FIVE

**This study concludes that Ethiopia’s financial and institutional infrastructure is not yet fully prepared for capital market development. Regulatory gaps, technological limitations, and weak institutional collaboration remain significant challenges. However, government policies, advancements in financial technology, and growing investor interest present opportunities for development. A well-structured regulatory framework and institutional support are essential to ensure a stable and efficient capital market ecosystem.**

This chapter provides a summary of key findings, conclusions, and recommendations. The study aimed to assess the infrastructure readiness for capital markets development in Ethiopia, with a particular focus on identifying opportunities and challenges that exists. To achieve this a descriptive survey research design were utilized, employing a mixed research approach. The following section summarizes the main findings from the analysis.

### **5.1. Summary of Major Findings**

This section presented summary of the main findings from the analysis based on the study objectives:

#### **The Current Status of Infrastructure in Ethiopia’s capital markets**

The findings reveal that investors perceive limited accessibility to capital market investment opportunities in Ethiopia, as indicated by a mean score of 2.59 (SD = 0.257). This suggests that existing market structures and regulatory frameworks are not adequately facilitating investor participation. Additionally, inefficiencies and a lack of transparency in the securities trading process are evident, with a mean score of 2.41 (SD = 0.294), highlighting concerns over market trust and operational effectiveness. Furthermore, the availability of trading platforms and market data is considered insufficient, as reflected in a mean score of 2.52 (SD = 0.279), which may hinder informed investment decisions. Strengthening accessibility, transparency, and data availability through regulatory reforms and technological advancements could address these gaps.

The study findings indicate that the reliability and efficiency of the capital market's settlement and clearing systems received a neutral perception, with a mean score of 2.70 (SD = 0.287), suggesting mixed views on market infrastructure. While regulatory enforcement for fairness and market stability is positively acknowledged, with a mean score of 3.74 (SD = 0.305), the adequacy of institutional support remains uncertain, as reflected by a mean score of 3.15 (SD = 0.305). Despite these challenges, investor confidence in the future growth of Ethiopia's capital market is relatively strong, with a mean score of 3.70 (SD = 0.244). The overall aggregate mean score of 2.97 (SD = 0.28) underscores the need for policy interventions, improved infrastructure, and enhanced regulatory oversight to strengthen the capital market ecosystem.

### **The Institutional, Financial and Infrastructure Readiness**

The findings reveal that the existing legal and regulatory framework for capital market operations in Ethiopia is perceived as inadequate, with a mean score of 2.85 (SD = 0.254). Respondents express uncertainty about the adequacy of legal provisions, suggesting a potential gap that could hinder smooth market operations. A well-defined legal framework is crucial for investor confidence and market stability. Therefore, policymakers should review and strengthen existing regulations to align with global best practices.

The study findings indicate that the effectiveness of regulatory institutions overseeing capital markets in Ethiopia is questioned, with a mean score of 2.74 (SD = 0.280). Respondents generally lack confidence in the oversight capabilities of these institutions, which could lead to inefficiencies in market regulation. Since strong regulatory bodies reduce market manipulation and enhance investor trust, the Ethiopian government should prioritize capacity-building efforts to improve oversight and enforcement mechanisms.

The findings suggest that financial regulators are not perceived as effectively ensuring transparency and investor protection, as indicated by a mean score of 2.52 (SD = 0.294). Respondents express concerns about the role of financial regulators in safeguarding investor interests. Given the importance of transparency in fostering investor confidence, Ethiopian financial regulatory bodies should enhance transparency measures and adopt internationally recognized investor protection policies to strengthen market integrity.

The study results show that institutional collaboration among financial entities to promote capital market growth is weak, as evidenced by a mean score of 2.59 (SD = 0.351).

Respondents perceive fragmented efforts among institutions, which could limit the development of the capital market. Institutional coordination is essential for financial market efficiency, and strengthening collaboration among regulatory and financial institutions could drive market expansion and stability.

The findings indicate that government institutions do not provide adequate support to financial market participants, with a mean score of 2.59 (SD = 0.312). Respondents perceive government support as insufficient, which may negatively impact market participation and liquidity. Since state institutions play a crucial role in fostering market confidence, enhancing government support mechanisms through financial incentives and policy interventions could improve market engagement and performance.

The study results highlight concerns about the institutional capacity to regulate and supervise capital market activities, with a mean score of 2.63 (SD = 0.293). Respondents express uncertainty about the adequacy of institutional capacity, which could affect market integrity and stability. Strengthening institutional capacity through training, technological advancements, and strategic partnerships is necessary to enhance regulatory effectiveness. Addressing these issues through legal reforms, capacity-building initiatives, and enhanced transparency measures will be crucial in fostering a well-functioning capital market in Ethiopia.

### **Challenges and Opportunities in Capital Market Infrastructure**

The findings reveal that the lack of a well-established regulatory framework is a significant barrier to capital market development in Ethiopia, as indicated by a mean score of 3.74 (SD = 0.259). Respondents also highlight limited access to reliable financial data and market information as a constraint, with a mean score of 3.70 (SD = 0.301), which discourages investor participation. Additionally, the absence of a fully operational stock exchange restricts investment opportunities, with a mean score of 3.67 (SD = 0.272). These challenges underscore the need for comprehensive regulatory reforms, improved financial data transparency, and the expedited establishment of a stock exchange to support market growth.

The study findings indicate that inadequate technological infrastructure negatively impacts trading efficiency and transparency, as reflected by a mean score of 3.70 (SD = 0.310). A shortage of skilled professionals in capital market operations also emerges as a challenge, with a mean score of 3.44 (SD = 0.294), suggesting a need for capacity-

building programs. While high transaction costs are not perceived as a significant barrier, with a mean score of 2.41 (SD = 0.289), limited investor awareness and financial literacy remain areas of concern, as evidenced by a mean score of 3.30 (SD = 0.310). Addressing these issues through investments in digital trading infrastructure, professional training, and investor education initiatives will be critical for market efficiency and accessibility.

The findings also highlight opportunities for capital market development in Ethiopia. The country's growing economy presents a favorable environment, as indicated by a mean score of 3.70 (SD = 0.296). Government initiatives and policy reforms receive strong support, with a mean score of 3.74 (SD = 0.305), suggesting confidence in regulatory efforts to establish a capital market. However, respondents are uncertain about the extent of foreign investor influence, with a mean score of 3.11 (SD = 0.339), indicating a need for policies that create a more transparent and investor-friendly environment. Capitalizing on economic growth and strengthening regulatory support will be crucial in fostering market expansion.

The study findings further indicate that advancements in financial technology (FinTech) are seen as a key driver of market efficiency, with a mean score of 3.78 (SD = 0.284). The establishment of a stock exchange is also viewed positively, with a mean score of 3.70 (SD = 0.276), highlighting the potential for expanded investment opportunities. Strengthening financial literacy programs, with a mean score of 3.44 (SD = 0.289), and enhancing collaborations between financial institutions and regulatory bodies, with a mean score of 3.52 (SD = 0.308), are considered essential for improving market participation and stability. Addressing these opportunities through technological advancements, investor education, and regulatory coordination will be critical in ensuring the successful development of Ethiopia's capital market.

### **Government Initiatives and Private Sector Involvement**

The findings reveal that respondents are uncertain about the Ethiopian government's commitment to establishing a capital market, as indicated by a mean score of 2.85 (SD = 0.281). This suggests that while some initiatives exist, there is a lack of clear communication and tangible progress. Additionally, government policies and regulations are perceived as ineffective in creating a conducive environment for capital market development, with a mean score of 2.63 (SD = 0.312). This skepticism highlights the need for regulatory reforms aligned with international best practices to enhance market

confidence. Moreover, financial literacy programs are seen as inadequate in raising awareness of capital market opportunities, as reflected by a mean score of 2.56 (SD = 0.258). Expanding and integrating financial education initiatives into national education programs could improve market participation. Lastly, technological advancements to enhance market efficiency received a mean score of 2.41 (SD = 0.252), indicating dissatisfaction. Investments in digital infrastructure and modern trading platforms are essential to improving market operations.

The study findings indicate that while regulatory bodies are generally perceived as ensuring transparency and investor protection, as shown by a mean score of 3.56 (SD = 0.235), there is some variability in responses due to differing experiences with regulatory enforcement. Strengthening oversight mechanisms and increasing public awareness could further enhance confidence in regulatory institutions. Additionally, public-private partnerships in financing capital market infrastructure received a mean score of 3.78 (SD = 0.274), highlighting the recognition of their significance. Strengthening these partnerships through clear policy frameworks can enhance infrastructure financing. However, tax incentives and investment policies were perceived as inadequate, with a mean score of 2.41 (SD = 0.289). Enhancing tax incentives and reducing bureaucratic hurdles could attract more investors and stimulate market growth. The overall neutral stance toward government initiatives, with an aggregate mean of 2.88 (SD = 0.27), suggests that while some positive efforts exist, regulatory gaps, technological advancements, and financial literacy programs need significant improvement.

The findings also indicate that private sector investment is considered crucial for capital market growth, as shown by a mean score of 3.74 (SD = 0.280). Respondents acknowledge the importance of financial institutions in capital market infrastructure development, with a mean score of 3.59 (SD = 0.289). However, private sector engagement in advocacy and policy discussions was perceived as limited, with a mean score of 2.41 (SD = 0.303). Encouraging greater private sector participation in regulatory discussions could enhance market development. Similarly, private sector funding to support capital market operations received a mean score of 3.59 (SD = 0.294), indicating recognition of its role in market expansion. However, uncertainty remains regarding the technological readiness of private companies, with a mean score of 2.78 (SD = 0.274). To address this, private firms should invest in modern trading infrastructure and digital transformation.

The study findings highlight that institutional investors play a significant role in driving capital market growth, as indicated by a mean score of 3.70 (SD = 0.287). However, private sector motivation to invest in Ethiopia's capital market was perceived as insufficient, with a mean score of 2.52 (SD = 0.289). Introducing tax incentives and risk mitigation strategies could boost private sector participation. The aggregate mean score of 3.19 (SD = 0.29) suggests a mixed perception of private sector involvement, with uncertainties surrounding technological readiness, policy advocacy, and investment incentives. To enhance effective private sector participation, regulatory bodies should implement policies addressing these concerns while aligning with international best practices.

Regarding interviews result, the ESX experts during the interview highlighted Ethiopia's capital market as being in its early stages, facing challenges in regulatory enforcement, market surveillance, and technological infrastructure, particularly in trading and settlement systems. They emphasized the need for digital trading platforms, institutional capacity building, and investor education to enhance market efficiency and attract investors. Additionally, they pointed to opportunities such as fintech advancements, government-led financial sector reforms, and increased institutional investor interest. Meanwhile, the MoF expert acknowledged the government's commitment to capital market development through legal reforms and regulatory milestones but noted significant gaps in financial sector readiness, investor awareness, and institutional capacity. They stressed the importance of strengthening regulatory bodies, fostering collaboration among stakeholders, and gradually introducing market reforms to ensure transparency, investor confidence, and sustainable market growth. Both experts agreed that a strong public-private partnership, combined with financial literacy programs and strategic policy incentives, is essential for the successful establishment of Ethiopia's capital market.

## 5.2. Conclusions

Based on the findings the following conclusions were drawn:

The findings of this study highlight critical gaps and opportunities in Ethiopia's capital market infrastructure, institutional and financial readiness, and government-private sector involvement. The study reveals that limited accessibility to capital market investment opportunities, inefficiencies in securities trading, and inadequate market data availability contribute to weak investor participation. These findings align with the study by Allen, Faia, Haliassos, and Langenbucher (2024), which underscores the importance of market accessibility and transparency in fostering investor confidence. Strengthening regulatory frameworks, investing in modern trading platforms, and enhancing transparency through digital transformation are necessary to address these challenges.

Institutional and financial infrastructure readiness remains a concern, as respondents express uncertainty about the adequacy of legal provisions and the effectiveness of financial regulators. This finding is consistent with the research by Ben Ghazzi and Chaibi (2022), which emphasizes the role of strong regulatory institutions in mitigating market inefficiencies and protecting investor interests. Additionally, weak institutional collaboration and insufficient government support further hinder market development. Addressing these gaps through capacity-building initiatives, legal reforms, and enhanced institutional coordination can significantly improve Ethiopia's capital market framework.

Challenges such as the absence of a fully operational stock exchange, inadequate technological infrastructure, and a shortage of skilled professionals are major barriers to capital market growth. Similar challenges have been observed in other emerging markets, as noted by Kidane, Abera, and Talu (2024), who argue that weak infrastructure and regulatory inefficiencies impede market development. However, Ethiopia's growing economy and government policy initiatives present a favorable environment for market expansion. Leveraging technological advancements, fostering public-private partnerships, and promoting investor education will be essential in overcoming these barriers.

Government initiatives play a crucial role in capital market development, yet the study finds uncertainty regarding the Ethiopian government's commitment to establishing a well-functioning market. Regulatory policies and financial literacy programs are perceived as insufficient, highlighting the need for reforms aligned with international best practices. Contrary to the study by Demirgüç-Kunt and Levine (2021) which highlights

the positive impact of government-led financial education programs in emerging markets, Ethiopia's approach remains underdeveloped. Enhancing financial literacy and expanding investor awareness programs could contribute to higher market participation.

Private sector involvement is recognized as a key driver of capital market growth, yet engagement in policy discussions and advocacy remains limited. This finding is in contrast to the study by Beck et al. (2022), which suggests that active private sector participation in regulatory discussions fosters financial market stability and innovation. Encouraging private sector investment in digital trading infrastructure, institutional investment, and advocacy efforts can help bridge existing gaps. Additionally, introducing tax incentives and risk mitigation strategies may enhance private sector confidence and investment in the capital market.

Overall, Ethiopia's capital market development requires significant improvements in regulatory enforcement, infrastructure investment, financial literacy, and institutional collaboration. Future research should explore the long-term effects of policy reforms on market efficiency and investor confidence. Comparative studies with other emerging markets may provide valuable insights into best practices for capital market development in Ethiopia. Strengthening legal frameworks, leveraging financial technology, and fostering an enabling investment climate are critical to ensuring sustainable capital market growth in the country.

### **5.3. Recommendations**

Based on the findings and conclusions, the study forwards the following recommendations for financial institutions, policymakers, and market participants.

#### **Recommendations for Financial Institutions**

- ✓ Financial institutions should develop and offer diverse capital market investment products to enhance accessibility and investor participation. By introducing bonds, mutual funds, and exchange-traded funds (ETFs), financial institutions can create more investment opportunities for retail and institutional investors. Expanding product offerings will help address the limited accessibility issue and contribute to a more vibrant capital market.
- ✓ Investment in digital trading infrastructure is crucial for improving the efficiency of securities trading in Ethiopia. Financial institutions should adopt modern trading platforms that facilitate seamless transactions, enhance market liquidity, and provide real-time market data. Upgrading digital infrastructure will help reduce inefficiencies and attract more investors by ensuring a transparent and efficient trading process.
- ✓ Financial institutions must strengthen their risk management frameworks to build investor confidence and ensure market stability. Developing robust compliance measures, conducting regular risk assessments, and implementing advanced risk mitigation strategies will protect investors from market fluctuations. Enhancing risk management practices will also align Ethiopia's capital market with international standards, making it more attractive to both domestic and foreign investors.
- ✓ Promoting financial literacy programs should be a priority for financial institutions. Many potential investors are unaware of the benefits and risks associated with capital market investments. By organizing financial education workshops, online courses, and awareness campaigns, financial institutions can improve investor knowledge and encourage more participation in the market. Improved financial literacy will lead to better investment decisions and greater market stability.
- ✓ Collaboration with policymakers, regulators, and other market participants is essential for financial institutions to create a more conducive investment

environment. By working together, stakeholders can address challenges related to regulatory frameworks, investor protection, and market development. Strong institutional collaboration will enhance trust, transparency, and efficiency in the capital market, ultimately leading to its sustainable growth.

- ✓ Encouraging institutional investment is another key area for financial institutions. Large institutional investors, such as pension funds and insurance companies, play a vital role in deepening capital markets. Financial institutions should design investment products that cater to institutional investors, ensuring their active participation in the market. Increased institutional investment will enhance market liquidity and stability, making the Ethiopian capital market more resilient and attractive.

### **Recommendations for Policymakers**

- ✓ Policymakers should focus on strengthening the regulatory framework to ensure transparency, investor protection, and market efficiency. Establishing clear and enforceable laws governing securities trading, financial disclosures, and investor rights will create a stable market environment. A well-defined regulatory framework will enhance investor confidence and promote sustainable market development.
- ✓ Establishing a fully operational stock exchange should be a top priority for policymakers. A well-functioning stock exchange will provide a structured platform for securities trading, improve price discovery, and enhance market accessibility. By ensuring a smooth and efficient stock exchange system, Ethiopia can attract both local and foreign investors, contributing to economic growth and financial sector development.
- ✓ Enhancing government-private sector collaboration is essential for capital market growth. Policymakers should create platforms for dialogue and cooperation between the government, financial institutions, and private investors. Public-private partnerships can facilitate infrastructure development, regulatory reforms, and investment promotion, fostering a more dynamic and competitive capital market.
- ✓ Legal and institutional capacity-building efforts should be prioritized to improve the efficiency of financial regulators and institutions. Strengthening financial regulatory agencies through training, technological upgrades, and resource

allocation will enable them to oversee market activities effectively. Policymakers should ensure that legal provisions governing the capital market are up-to-date and aligned with global best practices.

- ✓ Introducing tax incentives for capital market participants can encourage investment and market expansion. Tax benefits, such as reduced capital gains tax or exemptions for long-term investors, can attract both retail and institutional investors. Policymakers should design tax policies that encourage participation while ensuring revenue sustainability for the government.
- ✓ Promoting financial inclusion through simplified investment processes and lower entry barriers will encourage wider participation in the capital market. Policymakers should ensure that small and medium-sized enterprises (SMEs) and retail investors can access investment opportunities. Implementing regulatory policies that reduce transaction costs and enhance financial accessibility will drive greater investor participation and capital market growth.

### **Recommendations for Market Participants**

- ✓ Market participants, including individual and institutional investors, should actively engage in financial literacy and investor awareness programs. Understanding capital market fundamentals, risk management strategies, and regulatory requirements will enable them to make informed investment decisions. Increased financial literacy will contribute to a more stable and efficient capital market.
- ✓ Adopting digital trading platforms can improve investment efficiency and accessibility. Market participants should leverage online brokerage services, mobile trading apps, and fintech solutions to manage their investments effectively. The adoption of digital tools will enhance trading convenience, improve transaction transparency, and reduce the costs associated with traditional investment methods.
- ✓ Active participation in regulatory and policy discussions is crucial for market participants. Investors should advocate for market-friendly policies, regulatory transparency, and investor protection mechanisms. Engaging in policy discussions and industry associations will help shape a more inclusive and efficient capital market ecosystem.

- ✓ Diversifying investment portfolios is essential for risk mitigation and long-term financial stability. Market participants should consider investing in a mix of securities, including government bonds, corporate stocks, and mutual funds. Diversification strategies will help investors manage risks and optimize returns, contributing to overall market stability and resilience.
- ✓ Transparency and information sharing should be prioritized among market participants. Investors should demand and support improved market data availability, financial reporting standards, and regulatory disclosures. Greater transparency will enhance investor confidence, promote market integrity, and attract more participants to Ethiopia's capital market.
- ✓ Supporting private sector investment initiatives will play a significant role in strengthening Ethiopia's capital market. Market participants should actively invest in capital market instruments, engage in venture capital initiatives, and participate in long-term market development efforts. Encouraging private sector investment will enhance market liquidity, stimulate economic growth, and create a more vibrant financial ecosystem.

#### **5.4. Future Research Directions**

Future research should explore the role of foreign investments in Ethiopia's capital market development and examine the long-term impact of government policies on investor behavior. Further empirical studies on FinTech adoption and regulatory harmonization would provide valuable insights for market practitioners and policymakers alike.

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**APPENDIX I: QUESTIONNAIRE**  
**ADDIS ABABA UNIVERSITY COLLEGE**  
**SCHOOL OF GRADUATE STUDIES**

**Dear respondent**

This questionnaire is designed to collect data for the study entitled “*Assessing the Infrastructure Readiness for Capital Markets Development in Ethiopia: Opportunities and Challenges.*” Your participation is highly valued, and your responses will be treated with strict confidentiality. The information gathered will be used solely for academic purposes and will contribute to a deeper understanding of the existing infrastructure, challenges, and opportunities in developing a well-functioning capital market in Ethiopia.

The findings of this study will help provide informed recommendations for policymakers, financial institutions, and market participants to enhance the readiness and effectiveness of Ethiopia’s capital markets. Your honest, thoughtful, and timely responses are essential for the success of this research. Therefore, we kindly request your cooperation in completing this questionnaire thoroughly and responsibly.

Thank you in advance for your valuable time and insights.

Sincerely

**Instruction**

- No need of writing your name
- For close-ended question, put “✓” mark

**Part I: Demographic information**

**1. What is your position in the company?**

- CEO  Manger  Director  Head of Department  Expert

**2. How long have you been in the financial sector?**

- Less than 1 year  1-3 years  4-6 years  7-10 years  More than 10 years

**3. What is the size of your organization (number of employees)?**

- Less than 10  11-50  51-100  101-200  More than 200

**4. What is your highest level of education?**

- High school diploma  Technical/vocational training  Bachelor’s degree

Master’s degree  PhD  Other (please specify) \_\_\_\_\_

**Section II: Related to current status of infrastructure**

This section consists of seven statements related to Ethiopia’s capital market infrastructure. Please indicate your level of agreement with each statement by selecting one of the five options: Strongly Disagree, Disagree, Neutral, Agree, or Strongly Agree.

<b>Item No</b>	<b>Question Related to current Infrastructure</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
1	I can easily access capital market investment opportunities in Ethiopia.					
2	The process of buying and selling securities is efficient and transparent.					
3	The availability of trading platforms and market data meets my investment needs.					
4	The capital market’s settlement and clearing systems are reliable and efficient.					
5	Regulatory enforcement ensures fairness, investor protection, and market stability.					
6	The level of institutional support (e.g., brokerage firms, financial advisors) is adequate for investors.					
7	I am confident in the future growth and development of Ethiopia’s capital markets infrastructure.					

### Section III (A): Related to Institutional Readiness

This section consists of seven statements related to institutional readiness in supporting capital market operations. Please indicate your level of agreement with each statement by selecting one of the five options: Strongly Disagree, Disagree, Neutral, Agree, or Strongly Agree.

Item No	Question Related to Institutional Readiness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The existing legal and regulatory framework adequately supports capital market operations in Ethiopia.					
2	The Ethiopian government has established effective regulatory institutions for overseeing capital markets.					
3	The presence of financial regulatory bodies ensures transparency and investor protection.					
4	Institutional collaboration among financial entities promotes capital market growth.					
5	The capital market regulatory framework is aligned with international best practices.					
6	Government institutions provide adequate support to financial market participants.					
7	There is sufficient institutional capacity to regulate and supervise capital market activities.					

### Section III (B): Related to Financial Readiness

This section consists of seven statements related to financial readiness in supporting capital market operations. Please indicate your level of agreement with each statement by selecting one of the five options: Strongly Disagree, Disagree, Neutral, Agree, or Strongly Agree.

Item No	Question Related to Financial Readiness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Ethiopia's financial sector is capable of supporting capital market activities.					
2	The banking sector provides adequate financial services to facilitate stock market operations.					
3	There are sufficient investment funds and institutional investors to support capital markets.					
4	Capital market participants have access to diversified financial instruments.					
5	There are adequate financial incentives for businesses to participate in the capital market.					
6	The availability of credit and investment capital supports stock market liquidity.					
7	The government provides sufficient financial support to strengthen capital market infrastructure.					

### Section III (C): Related to Infrastructure Readiness

This section consists of seven statements related to infrastructure readiness in supporting capital market operations. Please indicate your level of agreement with each statement by selecting one of the five options: Strongly Disagree, Disagree, Neutral, Agree, or Strongly Agree.

Item No	Question Related to Infrastructure Readiness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Ethiopia has the necessary technological infrastructure to support a modern capital market.					
2	Trading platforms and stock exchange systems are well-developed and reliable.					
3	Digital payment systems are effectively integrated into the capital market ecosystem.					
4	Cybersecurity measures are sufficient to ensure safe trading and financial transactions.					
5	There is reliable access to market data and financial information for investors.					
6	The physical and digital infrastructure for stock exchanges is adequately prepared.					
7	There is strong government and private sector collaboration in developing market infrastructure.					

#### Section IV: Related to Challenges

This section consists of seven statements related to regulatory and legal challenges, financial infrastructure issues, and market participant challenges. Please indicate your level of agreement with each statement by selecting one of the five options: Strongly Disagree, Disagree, Neutral, Agree, or Strongly Agree.

Item No	Question Related to Challenges	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The lack of a well-established regulatory framework hinders capital market development in Ethiopia.					
2	Limited access to reliable financial data and market information discourages investor participation.					
3	The absence of a fully operational stock exchange limits investment opportunities.					
4	Inadequate technological infrastructure affects trading efficiency and transparency.					
5	There is a shortage of skilled professionals in capital market operations.					
6	High transaction costs and fees discourage investment in Ethiopia's capital markets.					
7	Limited investor awareness and financial literacy slow down market development.					

## Section V: Related to Opportunities

This section consists of seven statements related to potential opportunities like foreign investment, digital trading systems, and policy reforms. Please indicate your level of agreement with each statement by selecting one of the five options: Strongly Disagree, Disagree, Neutral, Agree, or Strongly Agree.

Item No	Question Related to Opportunities	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Ethiopia's growing economy presents opportunities for capital market development.					
2	Government initiatives and policy reforms support the establishment of a capital market.					
3	The increasing interest from foreign investors enhances capital market growth prospects.					
4	Advancements in financial technology (FinTech) can improve capital market efficiency.					
5	Establishing a stock exchange will create more investment opportunities for businesses and individuals.					
6	Expanding financial literacy programs can increase investor participation in the capital market.					
7	Strengthening collaborations between financial institutions and regulatory bodies can enhance market stability.					

## Section VI: Related to government initiatives

This section consists of seven statements related to government initiatives in fostering capital market growth and infrastructure development. Please indicate your level of agreement with each statement by selecting one of the five options: Strongly Disagree, Disagree, Neutral, Agree, or Strongly Agree.

Item No	Question Related to Government Initiatives	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The Ethiopian government has shown strong commitment to establishing a capital market.					
2	Government policies and regulations provide a conducive environment for capital market development.					
3	The establishment of regulatory bodies ensures transparency and investor protection in the capital market.					
4	Government-backed financial literacy programs effectively raise awareness of capital market opportunities.					
5	Public-private partnerships play a significant role in financing capital market infrastructure.					
6	The government has facilitated technological advancements to enhance market efficiency and trading processes.					
7	Tax incentives and investment policies encourage participation in Ethiopia's capital market.					

## Section VII: Related to private sector involvement

This section consists of seven statements related to private sector involvement in fostering capital market growth and infrastructure development. Please indicate your level of agreement with each statement by selecting one of the five options: Strongly Disagree, Disagree, Neutral, Agree, or Strongly Agree.

Item No	Question Related to Private Sector Involvement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Private sector investment is crucial for the successful development of Ethiopia's capital market.					
2	Financial institutions are actively participating in the development of capital market infrastructure.					
3	The private sector is sufficiently engaged in capital market advocacy and policy discussions.					
4	There is adequate private sector funding to support capital market operations and expansion.					
5	Private companies have the necessary technological capacity to support modern trading platforms.					
6	Institutional investors play a key role in driving capital market growth in Ethiopia.					
7	The private sector is motivated by sufficient incentives to invest in Ethiopia's capital market.					

## **APPENDIX II: INTERVIEW QUESTIONS FOR MoF**

### **ADDIS ABABA UNIVERSITY COLLEGE SCHOOL OF GRADUATE STUDIES**

**Dear respondent,**

This interview is designed to collect data for the study entitled “*Assessing the Infrastructure Readiness for Capital Markets Development in Ethiopia: Opportunities and Challenges.*” Your insights and expertise are highly valued, and your responses will be treated with strict confidentiality. The information gathered will be used exclusively for academic purposes and will contribute to a deeper understanding of the current state, challenges, and opportunities related to capital market infrastructure in Ethiopia.

Your participation in this interview will help generate informed recommendations for policymakers, financial institutions, and market participants to enhance the development of a well-functioning capital market. We kindly request your honest and thoughtful responses, as they will be instrumental in shaping valuable insights for this study.

Thank you in advance for your time, expertise, and cooperation.

**Sincerely**

1. How would you describe the current state of Ethiopia’s capital market infrastructure, particularly in terms of trading platforms, settlement systems, and financial institutions?
2. From your perspective, how prepared are Ethiopia’s financial institutions and regulatory bodies to support the operations of a capital market, and what key improvements are necessary?
3. What do you see as the biggest challenges in establishing a fully functional capital market in Ethiopia, and what potential opportunities exist for overcoming these challenges?
4. What specific initiatives has the government undertaken to promote capital market development in Ethiopia, and how do you see the role of the private sector in complementing these efforts?

## **APPENDIX III: INTERVIEW QUESTIONS FOR ESX**

### **ADDIS ABABA UNIVERSITY COLLEGE SCHOOL OF GRADUATE STUDIES**

**Dear respondent,**

This interview is designed to collect data for the study entitled “*Assessing the Infrastructure Readiness for Capital Markets Development in Ethiopia: Opportunities and Challenges.*” Your insights and expertise are highly valued, and your responses will be treated with strict confidentiality. The information gathered will be used exclusively for academic purposes and will contribute to a deeper understanding of the current state, challenges, and opportunities related to capital market infrastructure in Ethiopia.

Your participation in this interview will help generate informed recommendations for policymakers, financial institutions, and market participants to enhance the development of a well-functioning capital market. We kindly request your honest and thoughtful responses, as they will be instrumental in shaping valuable insights for this study.

Thank you in advance for your time, expertise, and cooperation.

**Sincerely**

1. How would you describe the existing infrastructure supporting Ethiopia’s capital markets, including trading platforms, clearing and settlement systems, and regulatory frameworks?
2. In your assessment, how prepared are Ethiopia’s financial institutions and regulatory bodies to support efficient capital market operations, and what gaps still exist?
3. What are the main challenges and opportunities that Ethiopia faces in establishing a robust and well-functioning capital market infrastructure?
4. How do you perceive the role of government policies and private sector participation in shaping and accelerating the development of capital market infrastructure in Ethiopia?