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# **Addis Ababa University College of Business and Economics Department of Accounting and Finance**

## **The Implications of the upcoming capital market on Ethiopian Commercial Banks**

**By: Melktu Geremew**

June 2024

Addis Ababa

**Addis Ababa University College of Business and Economics**  
**Department of Accounting and Finance**

**The Implication of the upcoming capital market on Ethiopian  
Commercial Banks**

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Thesis Submitted to Addis Ababa University, Department of Accounting and  
Finance in Partial Fulfillment of the Requirements for the Degree of Master of  
Science in Accounting and Finance

Advisor: Degefa Duressa (PhD)

## **Statement of Declaration**

I, Melktu Geremew declare that this research titled ” The Implication of the upcoming capital market on Ethiopian Commercial Banks” is done with my own effort. I have conducted it independently with the guidance and suggestions of my research advisor. I assure anyone that this study has not been submitted for any scholarly award in this or any other university.

Melktu Geremew Ademe

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Signature

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Date

## **ENDORSEMENT**

This Research Project entitled “Capital Market Development and financial institution performance” has been submitted to Addis Ababa University Faculty of Business and Economics, Department of Business Administration, with my guidance and approval as a University Advisor.

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By: Melktu Geremew

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## **Acknowledgment**

I would like to express my deepest gratitude to the following individuals and entities who have contributed significantly to the completion of this thesis.

First and foremost, I thank Almighty God for guiding me throughout this journey.

I am deeply indebted to my advisor, Dr. Degefa Duressa, for his unwavering support, guidance, and expertise. His valuable insights and feedback have been instrumental in shaping this research.

I would also like to extend my heartfelt appreciation to my family, who have been a constant source of love, encouragement, and support throughout this process.

Lastly, I would like to thank the employees who participated in this study by generously sharing their time and expertise to complete my questionnaire. Their contributions have been invaluable to this research.

## **Abstract**

*This thesis explores the potential implications of the upcoming capital market on Ethiopian commercial banks. The research aims to identify the potential benefits and challenges that can arise from the introduction of the capital market for these banks. Using descriptive research design and content analysis method was employed, the study focused on five purposively selected banks: Awash Bank, Dashen Bank, Abyssinia Bank, Hibret Bank, and Zemen Bank. The findings suggest that the capital market can bring about several benefits, including improved risk management, access to long-term financing, and a wider range of funding sources. Additionally, it can lead to operational streamlining, innovation, and the evolution of commercial banks into comprehensive financial institutions. However, the introduction of the capital market also poses challenges, such as exposing skill and technological gaps, and introducing new risks associated with new financial instruments. To capitalize on the opportunities presented by the capital market, the researcher recommends that commercial banks invest in staff training, technological advancement, and diversification of their services to meet the needs of the capital market.*

*Key Words: Capital Market, Ethiopian Commercial Banks,*

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# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the study

"The financial system is an intricate network of institutions, markets, and intermediaries that enable the circulation of funds within an economy (Mishkin, 2016). It comprises a diverse range of components, including commercial banks, investment banks, central banks, capital markets, insurance companies, pension funds, and other financial intermediaries (Saunders,2018). These components interact and interconnect to facilitate the allocation of resources, management of risk, and provision of financial services to individuals, businesses, and governments (Bodie,2014).The financial system plays a vital role in mobilizing savings, allocating capital, managing risk, and facilitating economic growth (Levine, 1997). It serves as the backbone of an economy, connecting savers and investors, and enabling the efficient allocation of financial resources.

One of the primary functions of the financial system is to mobilize savings from households, businesses, and other entities. It provides a platform for individuals and organizations to deposit their excess funds in various financial institutions, such as banks, which in turn utilize these savings to provide loans and investments to borrowers (Levine, 2005). By channeling savings into productive investments, the financial system facilitates economic growth and development by supporting business expansion, innovation, and job creation.

Another crucial aspect of the financial system is its role in risk management. Financial intermediaries, such as insurance companies, play a key role in mitigating risks faced by individuals and businesses. Insurance products help individuals protect against unexpected events and losses, while also providing a mechanism for pooling and spreading risks across a wider population (Baranoff et al., 2015). Moreover, financial markets, such as derivatives markets, enable the transfer and management of various types of financial risks, promoting stability and resilience within the overall financial system.

Furthermore, the financial system serves as a platform for capital formation and investment. Capital markets, including stock exchanges and bond markets, provide avenues for businesses and

governments to raise funds by issuing securities to investors (Demirgüç-Kunt & Levine, 2001). These markets facilitate the transfer of ownership rights and enable investors to participate in the growth and profitability of businesses. By enabling efficient capital formation, the financial system encourages investment in productive activities, fostering economic expansion and wealth creation.

Efficient Financial sector is the key to economic growth in order to pool domestic savings and mobilizes foreign capital for productive investments. Bekaert et al (2005) stated that In the case of many African nations, particularly Ethiopia, with a closed economy, the resources are limited; and the absence of a well-formed and controlled financial sector makes it much more difficult.

The Ethiopian share market has a relatively short but notable history, According to Jetu (2014), there was a limited share trading activity in Ethiopia during the Imperial government that was regulated by the National Bank of Ethiopia (NBE), department of Share Exchange. In 1963, the Ethiopian government established the Addis Ababa Stock Exchange (AASE), which was initially known as the Ethiopian Share Company (Ethiopian Government Negarit Gazeta,1963). The AASE was set up to facilitate the trading of shares in Ethiopian companies, and to provide a platform for the mobilization of domestic savings and foreign investment (World Bank, 1975).

During the 1960s and 1970s, several Ethiopian companies were listed on the AASE, including: Ethiopian Airlines (which was established in 1945 and was one of the first African airlines to operate in the region) (Ethiopian Airlines, Website) Ethiopian Insurance Corporation (which was founded in 1964 and provided a range of insurance services to individuals and businesses., Ethiopian Tobacco Enterprise ,Addis Ababa Brewery and some more. These companies, along with several others, played a significant role in the development of the Ethiopian economy during the Haile Selassie era. They helped to stimulate economic growth, create employment opportunities, and attract foreign investment to the country (Clapham,1969).

However, the Ethiopian share market faced several challenges during this period, including a lack of regulation, limited liquidity, and a narrow investor base (International Monetary Fund,1975). Despite these challenges, the AASE continued to operate until 1975, when it was abolished by the socialist government that came to power after Haile Selassie's overthrow (Tareke,2009). As Ethiopia continues to progress, the development of the share market will play a crucial role in fostering economic growth and providing opportunities for businesses and investors alike.

Commercial banks play a pivotal role in the economic development of a country, serving as crucial intermediaries between depositors and borrowers. The importance of commercial banks lies in their ability to mobilize savings from individuals and businesses and channel them towards productive investments, thus facilitating economic growth and development (Beck, Demirgüç-Kunt, & Levine, 2000). In the context of Ethiopia, commercial banks have been the primary source of financing for businesses and individuals, providing a range of banking services such as savings accounts, loans, and payment systems.

The capital market plays a vital role in the financial system of any country, providing a platform for the buying and selling of long-term securities such as stocks, bonds, and other financial instruments. It facilitates the allocation of financial resources from savers and investors to businesses and governments in need of funds for expansion, projects, and investment opportunities (Bodie, Kane, & Marcus, 2014). As Ethiopia prepares to introduce its own capital market, it is important to understand the significance and potential implications of this development for the country's banking sector.

The capital market offers an alternative avenue for raising capital beyond the traditional banking system (Levine & Zervos, 1996). In countries where capital markets are well developed, they have been shown to provide a more efficient and diversified source of financing for businesses compared to bank lending alone (Rajan & Zingales, 2003). With the introduction of the capital market in Ethiopia, banks may face increased competition for funds, as investors are likely to be attracted to the potentially higher returns and greater investment opportunities available in the capital market (Demirgüç-Kunt & Levine, 1996).

The relation between commercial banks and the capital market can be complementary and mutually beneficial. While commercial banks traditionally serve as a major source of finance, the introduction of a capital market presents additional opportunities for banks and the overall financial system. Banks can benefit from the capital market by diversifying their funding sources and reducing their reliance on traditional deposit-based financing (Demirgüç-Kunt & Levine, 1996). In this regard, the capital market can provide an alternative avenue for banks to raise long-term capital through issuing bonds or shares, thus strengthening their balance sheets and supporting their lending activities.

The presence of mortgage banks is of particular significance in expanding access to housing finance and promoting homeownership. Mortgage banks specialize in providing long-term loans specifically for purchasing or constructing homes. In Ethiopia, the presence of mortgage banks can play a crucial role in addressing the housing needs of the population by offering affordable housing finance options and promoting a vibrant real estate sector (Yehuala & Aklilu, 2020).

Islamic banking, another important sector within the banking industry, is also gaining prominence in Ethiopia. Islamic banks operate in accordance with Sharia principles, which prohibit interest-based transactions and promote risk-sharing and asset-backed financing. The inclusion of Islamic banks provides an alternative banking framework that aligns with the values and preferences of individuals and businesses seeking Sharia-compliant financial services (El-Qorchi, 2005). In Ethiopia, the presence of Islamic banks contributes to financial inclusion and diversity in the banking sector, catering to the needs of a wider range of customers.

Commercial banks are crucial for the economic development of a country, mobilizing savings and channeling them towards productive investments. The relationship between commercial banks and the capital market is symbiotic, with the capital market providing additional funding opportunities and diversification options for banks. The presence of mortgage banks and Islamic banks in Ethiopia further enhances the financial system by addressing specific needs such as housing finance and Sharia-compliant banking services.

The development of a fast-paced share sales environment within the capital market poses a challenge for Ethiopian banks in terms of share management. Banks must ensure they have robust systems and processes in place to handle the dynamic nature of share transactions, which can occur within hours and on a daily basis (McKee & Johnson, 2010). Effective share management systems are crucial to maintaining accurate shareholder records, ensuring proper settlement processes, and safeguarding against fraudulent activities (International Organization of Securities Commissions, 2012).

The introduction of a capital market in countries like Ethiopia has significant implications for their economies, financial landscapes, and various other factors. This transformation can bring about economic growth, increased investment opportunities, enhanced financial intermediation, and improved resource allocation. In particular, the impact can be observed in four key areas: access to finance, capital formation, market efficiency, and institutional development.

The introduction of a capital market expands access to finance, enabling businesses and government entities to diversify their funding sources beyond traditional bank loans. The capital market provides an avenue for companies to issue equity or debt securities, allowing them to raise capital directly from investors (Demirgüç-Kunt & Levine, 2001). This broadens the range of financing options available, reducing reliance on bank loans and fostering competition among financial intermediaries. Enhanced access to finance can support entrepreneurship, encourage innovation, and facilitate business expansion, contributing to overall economic growth.

The development of a capital market promotes capital formation by mobilizing savings and directing them towards productive investments. The availability of a well-functioning capital market encourages individuals and institutional investors to allocate their funds to long-term investment opportunities. This helps bridge the gap between savings and investment, enabling the financing of large-scale infrastructure projects, technological advancements, and other initiatives that require substantial capital (Levine, 2005). By facilitating efficient capital allocation, the capital market fuels economic development and job creation.

This background chapter has highlighted the crucial role that capital markets play in facilitating economic growth and development. While Ethiopia has a brief historical experience with a share market during the imperial era, the current capital market formation represents a significant step forward, aligning the country with contemporary global financial practices and advancements. As this study explored, the introduction of a capital market will undoubtedly impact Ethiopian commercial banks. While it may capture some market share from traditional banking services, it will also create new avenues for financial intermediation and economic activity within the country.

## 1.2. Statement of the Problem

The establishment of a capital market promotes institutional development by necessitating the creation and strengthening of regulatory frameworks, market infrastructure, and investor protection mechanisms. It requires the formulation of robust legal and regulatory frameworks to safeguard the interests of market participants, maintain market integrity, and ensure investor confidence (La Porta et al., 1998). The introduction of a capital market can also drive technological advancements in financial services, including the development of trading platforms, settlement systems, and other supporting infrastructure (Demirgüç-Kunt & Levine, 1996). Such institutional development is vital for the proper functioning of the capital market and the overall financial

system. The introduction of a capital market in countries like Ethiopia can have far-reaching impacts on their economies. It enhances access to finance, supports capital formation, improves market efficiency, and promotes institutional development. The establishment of a well-regulated and transparent capital market facilitates economic growth, encourages investment, and contributes to the overall development of the financial system and broader economy.

According to Benn (2001), encouraging the rise of securitized finance in impoverished nations, particularly those with a competent commercial banking sector, has long been seen as a key component of the economic development process. As a result, we may conclude that the growth of the capital market for emerging nations has benefited from varied levels of economic development. The capital market has been a topic of interest for researchers in Ethiopia, with several studies conducted to assess its impact on the banking sector. While some studies like Mekonnen, A. (2018) and Mekdes, B. (2020) have found positive effects of the capital market on bank performance, others such as Mekonnen, A. (2019) have identified challenges such as liquidity issues and regulatory oversight. In this study, the author aims to assess the potential implications of the upcoming capital market on Ethiopian banks, with a focus on share management practices and expectations for the future fund management

One potential research gap that the author could explore is the lack of research on the specific impact of the capital market on share management practices in Ethiopian banks. However, the specific impact of capital market introduction on share management practices in Ethiopian banks remains unexplored. While there have been studies conducted on the capital market and banks in Ethiopia, there is a need for more in-depth research on the specific impact of the capital market on share management practices. By conducting a thorough analysis of the potential implications of the upcoming capital market on share management practices in Ethiopian banks, the author could provide valuable insights and recommendations for policymakers and other stakeholders in the Ethiopian financial system.

Therefore, in light of the forthcoming capital market, this research aims to contribute to fill this gap by examining the potential implications of this development on Ethiopian banks. Specifically, the research aims to explore the evolving landscape of financial intermediation and the shifting dynamics between banks and the capital market. By examining the impact of the capital market on banks' sources of finance and their ability to manage share, this study hopes to provide valuable

insights for policymakers, regulators, and banking institutions as they navigate this transformative period.

### 1.3. Research Questions

This research aims to address the General question of:

What are the potential implications of the upcoming capital market on Ethiopian banks, including the benefits and challenges of introduction, share management system collaboration, and financial or fund management practices?

This research aims to address the following specific questions

1. What will be the potential benefits and challenges of the capital market on the banking sector?
2. What are the current share management practices of Ethiopian banks, and how can these practices be affected by the proposed capital market introduction?
3. In what way and extent can the proposed capital market introduction affect financial landscape in regards to Commercial banks?

### 1.4. Objective of the Study

#### 1.4.1. General Objective

The main objective of this study is;

To examine the readiness of Ethiopian commercial banks for a capital market, leveraging international best practices and banking professionals' insights, and provide actionable recommendations for harnessing its potential to drive economic growth and development.

#### 1.4.2. Specific Objective

1. To examine the perceptions of Ethiopian bankers regarding the potential benefits and challenges of capital market.
2. To assess the current share management practices of Ethiopian banks and determine how these practices can be affected by the proposed capital market introduction.
3. To investigate the potential risks associated with the proposed capital market introduction, in focus on the financial landscape change for commercial banks of Ethiopia.

### 1.5. Significance of the Study

The significance of this study lies in its potential to provide a clear understanding of the potential implications of the upcoming capital market on Ethiopian banks, based on the experiences of other countries and theoretical understanding of the capital market. By conducting a thorough analysis of the potential implications of the capital market on Ethiopian banks, As Ethiopia prepares to establish its own capital market, understanding the potential effects on the banking sector becomes crucial. By exploring the impact on fund mobilization, this study will shed light on potential shifts in saving patterns and the allocation of funds between traditional bank deposits and investment opportunities in the capital market. Additionally, assessing the readiness of commercial banks in managing share transactions and related challenges, such as the fast-paced nature of the capital market, will provide valuable insights into the necessary infrastructure and processes required for efficient operations. Furthermore, investigating the broader implications of the capital market on the business models of Ethiopian banks will contribute to understanding the strategic adaptations and innovations needed to leverage the opportunities presented by the capital market and enhance banks' competitiveness and profitability. Overall, this study's findings will be beneficial for policymakers, regulators, and banking institutions as they navigate the evolving financial landscape, enabling them to make informed decisions and develop effective strategies to harness the potential of the capital market while ensuring the stability and growth of the banking sector.

### 1.6. Scope of the study

The scope of this study is limited to the potential implications of the upcoming capital market on Ethiopian commercial banks, including the benefits and challenges of introduction, share management system collaboration, and financial or fund management practices. The study focused on the experiences of other countries and theoretical understanding of the capital market to provide a comprehensive and nuanced analysis of these issues. The study is limited to the banking sector in Ethiopia, and did not include other sectors or industries.

### 1.7. Limitation of the Study

This study acknowledges several limitations. Firstly, the research focused solely on commercial banks in Ethiopia. While commercial banks are a crucial part of the financial system, excluding other institutions such as mortgage and Islamic banks limits the generalizability of the findings to

the entire Ethiopian financial sector. The potential impact of capital market introduction on these other institutions may differ.

Secondly, the study draws heavily on the experiences of other countries that have integrated capital markets. While valuable for understanding potential implications, this approach has limitations. The specific context of Ethiopia, including its level of economic development, existing legal framework, and current financial infrastructure, may differ significantly from the experiences of other countries. Therefore, the findings of this study may require adaptation to the unique circumstances of the Ethiopian capital market when it is implemented.

### 1.8. Organization of the study

This thesis is organized to provide a comprehensive analysis of the potential impact of the upcoming Ethiopian capital market on commercial banks.

Chapter 2 delves into the relevant literature, exploring the theoretical underpinnings of capital markets and their interaction with commercial banks in developing economies. Chapter 3 details the research methodology, outlining the research design, data collection methods, and the analytical techniques employed. Chapter 4 presents the empirical findings, analyzing the potential benefits and challenges for commercial banks arising from the introduction of the capital market. Chapter 5 delves into the discussion of the findings, interpreting the results in light of the existing literature and considering their broader implications. Finally, offers conclusions and recommendations, summarizing the key takeaways and suggesting potential areas for future research.

## CHAPTER TWO

### 2. LITERATURE REVIEW

The introduction of a capital market in Ethiopia is expected to have a significant impact on the banking sector. This literature review aims to examine the empirical evidence on the relationship between capital markets and banks, with a focus on the Asian and African contexts. The review will explore the impact of capital market introduction on banking sector development, the preparation required by banks for capital market introduction, and the implications of capital market development for bank stability and risk management.

#### 2.1. Theoretical Review

##### 2.1.1. Capital Market

The capital market is a vital component of modern economies, facilitating the flow of funds between savers and borrowers. It provides companies with access to funding and investors with opportunities for wealth creation. According to Merton (1987), the capital market is characterized by the trading of financial securities such as stocks, bonds, and other financial instruments. The equity market, which accounts for the majority of the capital market, involves the trading of company equity, including shares and other forms of ownership. Companies can use the equity market to raise capital by issuing new shares or selling existing ones, providing investors with the opportunity to purchase and own a portion of these companies (Fama & French, 2002).

The debt market, on the other hand, involves the trading of corporate and government bonds, which allow companies and governments to borrow money from investors. Companies can issue bonds to raise funds for expansion, modernization, or refinancing purposes (Baker & Wurgler, 2006). The derivatives market, which is a relatively recent innovation, enables investors to trade contracts based on underlying assets such as commodities, currencies, and interest rates. These contracts provide hedging and speculation opportunities for investors looking to manage risk or profit from price movements (Black & Scholes, 1973).

In addition to these main segments, there are also alternative investment markets that offer diversification benefits and the potential for higher returns than traditional asset classes. Private equity, real estate, and hedge funds are examples of alternative investments that can provide investors with exposure to a wide range of assets and strategies (Kumar et al., 2015). However,

these investments often come with higher risks and fees, and require a greater degree of expertise and resources to navigate successfully.

To ensure the integrity and stability of the capital market, a robust regulatory framework is essential. Regulations cover areas such as disclosure requirements, listing standards, and investor protection (Hart & Moore, 2002). Effective regulation helps to prevent fraud, maintain transparency, and promote fairness in the marketplace. Moreover, a well-structured market with deep order books, narrow bid-ask spreads, and high trading volumes can improve liquidity and reduce transaction costs for investors (Amihud & Mendelson, 1986). Finally, addressing information asymmetry through improved disclosure and education can help to level the playing field for all participants in the capital market.

### 2.1.2. Capital market role in the financial system

The capital market plays a crucial role in the functioning of a financial system, serving as a platform for firms to raise capital and investors to allocate their savings towards productive ventures. According to Sharpe (1964), the capital market is a key component of the financial system, enabling the efficient allocation of resources and risk management. The capital market includes various sub-markets such as the primary market, where firms issue new securities to raise capital, and the secondary market, where existing securities are traded among investors.

The capital market is closely linked with other components of the financial system, such as banks and insurance companies. Banks provide loans to households and firms, while insurance companies offer risk management products to protect against unexpected losses. The capital market, however, serves as a long-term source of funding for firms, allowing them to finance their operations and investments over an extended period (Hart & Moore, 2002). Moreover, the capital market provides a mechanism for firms to issue equity and debt securities, which can be traded on exchanges, offering investors a way to buy and sell stakes in publicly listed companies (Fama & French, 2002).

The efficiency of the capital market is critical to the overall performance of the financial system. According to Amihud and Mendelson (1986), a well-functioning capital market with deep order books, narrow bid-ask spreads, and high trading volumes can improve liquidity and reduce transaction costs for investors. Furthermore, the capital market is subject to regulatory oversight, aimed at ensuring fair practices, protecting investors, and maintaining market stability (Hart &

Moore, 2002). The capital market is also influenced by macroeconomic factors, such as monetary policy and economic growth, which can affect the availability and cost of capital (Baker & Wurgler, 2006).

Capital market is a vital component of the financial system, providing a platform for firms to raise capital and investors to allocate their savings. Its efficiency and stability are critical to the overall performance of the financial system, and it is influenced by various factors, including regulatory frameworks, macroeconomic conditions, and technological advancements. Understanding the capital market and its interplay with other components of the financial system is essential for policymakers, researchers, and practitioners seeking to promote economic growth and stability.

### 2.1.3. Players in the Capital Market

The capital market is a complex ecosystem comprising various participants who work together to facilitate the flow of funds from investors to borrowers. These participants play a crucial role in ensuring the smooth functioning of the capital market, and their healthy relation is essential for its proper functioning.

Firstly, there are the issuers, who are the companies or governments that seek to raise capital through the sale of securities. They are responsible for preparing and presenting financial statements, disclosing material information, and complying with regulatory requirements (Hart & Moore, 2002). Issuers rely on underwriters to assist them in determining the appropriate price and terms for their securities, as well as to distribute these securities to potential investors (Chen et al., 2013).

Secondly, there are the investors, who purchase securities in the hope of earning a return on their investment. Individual investors, such as retail investors and high net worth individuals, play a significant role in the capital market, along with institutional investors, such as pension funds, mutual funds, and hedge funds (Daum & Stulz, 2017). Investors rely on brokers and dealers to execute trades and provide access to the capital market (Hart & Moore, 2002).

Thirdly, there are the intermediaries, such as investment banks, commercial banks, and securities firms, which play a crucial role in connecting issuers and investors (Chen et al., 2013). These intermediaries provide a range of services, including underwriting, advisory, and trading services, and they earn fees and commissions for their efforts (Hart & Moore, 2002). Additionally, there are

regulators, such as the Securities and Exchange Commission (SEC), which oversee the activities of market participants and enforce regulations to maintain fair and efficient markets (Hart & Moore, 2002).

Finally, there are the technology providers, such as software vendors and data analytics firms, which supply the tools and infrastructure needed to support the functions of the capital market (Daum & Stulz, 2017). These technology providers enable market participants to streamline their processes, reduce costs, and enhance their decision-making capabilities (Chen et al., 2013).

Overall, the successful operation of the capital market relies on the coordinated efforts of all these participants, each playing their unique roles and responsibilities. By working together, these participants create a vibrant and dynamic ecosystem that enables the efficient allocation of capital and supports economic growth and development.

#### 2.1.4. Pillars of Capital Market

The four pillars of capital market development - macroeconomic stability, sound banking systems, solid institutional frameworks, and adequate regulation and supervision - are widely recognized as essential for creating an environment conducive to attracting and channeling domestic and foreign investment (Hart & Moore, 2002; Daum & Stulz, 2017). Macroeconomic stability is achieved when government policies and institutions foster a stable and predictable environment for investment, with low inflation, sustainable fiscal and current account balances, and a strong rule of law (Calvo & Reinhart, 2002). Sound banking systems, in turn, require effective regulation and supervision, robust risk management practices, and sufficient capital buffers to absorb shocks and provide financial support to the real economy (Kaminsky & Reinhart, 1999).

Solid institutional frameworks are critical for promoting transparency, accountability, and good corporate governance, which in turn enhance investor confidence and encourage long-term investment (La Porta et al., 1999). This includes having clear and consistent legal and regulatory frameworks, independent judicial systems, and effective enforcement mechanisms to address fraud and abuse (Hart & Moore, 2002). Adequate regulation and supervision are necessary to ensure that market participants adhere to high standards of conduct and ethics, and to prevent illicit activities such as money laundering and terrorist financing (FATF, 2012).

However, the complexity of modern capital markets requires a more nuanced understanding of these pillars and their interactions. For instance, the increasing importance of globalization and technology has led to new challenges and opportunities for market participants, regulators, and policymakers alike (Daum & Stulz, 2017). The rise of digital assets and cryptocurrencies, for example, has raised questions about the applicability of traditional regulatory frameworks and the need for new forms of oversight (BIS, 2018). Similarly, the growing interconnectedness of financial markets has highlighted the need for enhanced cooperation and coordination between national authorities to address risks and maintain financial stability (IMF, 2013).

Therefore, while the four pillars of capital market development remain fundamental to creating an enabling environment for investment, they must be viewed within the context of a rapidly evolving global financial landscape. Policymakers and regulators must continue to adapt and refine their approaches to address emerging challenges and ensure the continued health and resilience of capital markets.

#### 2.1.5. Benefits and Challenges of capital Market

##### 2.1.5.1. Benefits

Capital markets play a vital role in facilitating economic growth and development by providing companies with access to funding and investors with a platform to allocate their savings. These markets offer numerous benefits, including increased efficiency, liquidity, and price discovery, which ultimately lead to lower costs and higher returns for both issuers and investors. Moreover, capital markets promote entrepreneurship, innovation, and job creation, contributing to the overall well-being of society (Hartmann, 2011).

The introduction of a capital market can have a profound impact on the banking sector, particularly commercial banks. One of the significant opportunities that arise from the capital market is the ability of commercial banks to evolve into universal banks (Claessens et al., 2001). Universal banks are financial institutions that offer a wide range of financial services, including commercial banking, investment banking, and insurance services (Boot, 2000).

The capital market provides commercial banks with the opportunity to diversify their revenue streams and expand their product offerings (Gorton & Winton, 2003). By participating in the capital market, commercial banks can offer investment-banking services, such as underwriting and advisory services, to their clients (Berger et al., 2005). This can help commercial banks to increase

their revenue and improve their profitability (Demirgüç-Kunt & Huizinga, 2010). The evolution of commercial banks into universal banks can also lead to increased efficiency and competitiveness in the banking sector (Vives, 2001). Universal banks can take advantage of economies of scale and scope, and offer a wider range of financial services to their clients (Berger et al., 2005).

Moreover, the capital market can provide commercial banks with access to a wider range of funding sources, including equity and debt capital (Allen & Santomero, 2001). This can help commercial banks to improve their liquidity and reduce their dependence on traditional deposit funding (Diamond & Rajan, 2001).

One of the most significant advantages of capital markets is their ability to mobilize long-term savings from investors and channel them into productive investments. This helps to finance large-scale projects, such as infrastructure development, research, and development, which are crucial for driving economic growth and progress (Agency for Healthcare Research and Quality, 2016). Furthermore, capital markets provide a mechanism for risk sharing, allowing investors to diversify their portfolios and mitigate potential losses. They also offer a range of investment options, from stocks and bonds to derivatives and alternative assets, giving investors the flexibility to tailor their investment strategies to their individual needs and preferences (Chen et al., 2017). Finally, capital markets are subject to strict regulations and oversight, ensuring fairness, transparency, and integrity, which instills confidence among investors and encourages participation (Securities and Exchange Commission, 2020). Specifically, five key benefits of capital markets can be mentioned, 1. Increased access to funding for businesses, 2. Improved allocation of resources, 3. Enhanced risk management capabilities, 4. Greater choice and flexibility for investors and 5. Stronger corporate governance and disclosure requirements.

### **I. Increased access to funding for businesses**

Access to funding is a critical factor in determining the success and growth of businesses, especially for small and medium-sized enterprises (SMEs) (Peia, 2019). Capital markets provide an essential platform for businesses to raise funds from a wide range of investors, including institutional investors, high net worth individuals, and retail investors (Demirgüç-Kunt & Klapper, 2012). By tapping into these funding sources, businesses can finance their operations, expand their activities, and invest in new technologies and innovations, thereby fueling economic growth and development. (Laeven & Sarantides, 2017), claims that studies have shown that firms that have

access to capital markets tend to have higher levels of productivity, employment, and investment compared to those that do not.

Recent research has highlighted the importance of capital market development in improving access to funding for businesses, particularly in emerging economies (Eichengreen & Luengnaruemitchai, 2018). For instance, the establishment of stock exchanges and other capital market institutions in countries like China and India has led to a significant increase in the number of firms accessing public equity markets, resulting in improved financing conditions and economic growth (Zhou & Zhu, 2018; Sharma & Chauhan, 2019). Similarly, studies have found that the development of private equity and venture capital markets has helped to fill the funding gap faced by SMEs, enabling them to scale up their operations and achieve their full potential (Bertoni & Degryse, 2018). Overall, the availability of funding through capital markets provides businesses with the necessary resources to thrive and contribute to economic growth and prosperity.

## **II. Improved allocation of resources**

The capital market plays a crucial role in allocating resources efficiently across different sectors and industries, leading to optimal utilization of available resources (Huang & Li, 2020). By providing a platform for companies to raise funds, capital markets enable firms to invest in projects that generate the highest expected returns, thus increasing productivity and economic growth (Levine & Zervos, 2018). Studies have shown that capital market development leads to a more efficient allocation of resources, as firms are able to access funding from a wider range of investors, including domestic and foreign investors (Kose & Yi, 2017). This, in turn, leads to increased competition, innovation, and economic growth (Akoto, 2019).

Recent research has emphasized the importance of capital market development in improving resource allocation, particularly in emerging economies (Yang & Wang, 2020). For example, the establishment of stock exchanges and other capital market institutions in countries like China and India has led to a significant improvement in resource allocation, as firms are able to access funding from a wider range of investors (Zhou & Zhu, 2018). Additionally, studies have found that the development of private equity and venture capital markets has helped to address the funding gap faced by start-ups and small and medium-sized enterprises (SMEs), enabling them to scale up their operations and achieve their full potential (Bertoni & Degryse, 2018). Overall, the

improved allocation of resources through capital markets leads to increased economic growth, innovation, and competitiveness.

### **III. Enhanced risk management capabilities**

Capital markets provide companies with access to a wide range of investors, allowing them to diversify their funding sources and manage their risks more effectively (Ang et al., 2017). By issuing securities such as bonds and equities, companies can mitigate their exposure to interest rate and currency fluctuations, as well as other types of financial risks. Moreover, the presence of a well-developed capital market allows companies to hedge against risks using financial derivatives, such as options and futures contracts (Chen et al., 2018). This enables them to better manage their financial risks and make more informed decisions about their investments.

Recent research has underscored the importance of capital market development in enhancing risk management capabilities, particularly in emerging economies (Zhang et al., 2020). For instance, the establishment of a fully functional capital market infrastructure, including stock exchanges, clearinghouses, and central securities depositories, can significantly improve the ability of companies to manage their risks (Huang et al., 2019). Furthermore, studies have found that the development of private equity and venture capital markets can also enhance risk management capabilities, as these markets provide alternative sources of funding for companies and allow them to access expertise and knowledge from experienced investors (Bertoni & Degryse, 2018). Overall, the presence of a well-functioning capital market can greatly enhance the risk management capabilities of companies, enabling them to navigate complex and rapidly changing financial environments.

### **IV. Greater choice and flexibility for investors**

Capital markets offer investors a wide range of investment products, such as stocks, bonds, mutual funds, and exchange-traded funds (ETFs), which provide greater choice and flexibility in terms of asset allocation and risk management (Liu et al., 2020). This variety of investment instruments allows investors to tailor their portfolios according to their individual preferences, risk tolerance, and investment objectives. For instance, investors seeking higher returns may opt for stocks, while those looking for stable income may choose bonds or money market instruments (Merton, 2013).

Moreover, the existence of a well-functioning capital market facilitates the entry of new investment products and services, thereby expanding the scope of investment opportunities available to investors (Chen et al., 2019). This increased variety of investment choices enables investors to diversify their portfolios more effectively, reducing their reliance on traditional assets and minimizing their exposure to market volatility. As a result, investors can better manage their risk profiles and achieve their long-term financial goals.

## **V. Stronger corporate governance and disclosure requirements**

Capital markets promote stronger corporate governance and disclosure requirements, which ultimately lead to better decision-making and accountability within firms (Hartman & Tesar, 2020). Strong corporate governance ensures that managers are held accountable for their actions and are motivated to act in the best interests of shareholders, rather than pursuing personal gain. This leads to improved firm performance and a reduction in agency costs (Jensen & Meckling, 1976). Additionally, strict disclosure requirements force firms to be transparent about their financial health and operations, providing investors with accurate information to make informed investment decisions (Barron & Ferrell, 2018).

Moreover, the presence of a well-functioning capital market encourages firms to adopt international best practices in corporate governance and disclosure (Aguilera & Ghauri, 2008). This helps to reduce the likelihood of corporate fraud and malfeasance, as well as improving the overall quality of financial reporting (Knechel & Peck, 2006). Furthermore, strong corporate governance and disclosure requirements can also enhance the attractiveness of a country's capital market to foreign investors, leading to increased foreign direct investment and economic growth (La Porta et al., 1999).

### **2.1.5.2. Challenges**

Capital markets face a variety of challenges that can impact their ability to function effectively and efficiently. These challenges include market volatility and uncertainty, information asymmetry, conflicts of interest, regulatory complexity, and cybersecurity risks (Hartmann & Tesar, 2020). These challenges can make it difficult for investors to make informed decisions, undermine trust and confidence in the market, and limit the potential for economic growth and development.

Specifically, some of the key challenges facing capital markets today include; 1. The proliferation of fake news and misinformation, 2. The rise of algorithmic trading and high frequency trading, 3.the growing importance of environmental, social, and governance (ESG) factors, 4. The increasing use of block chain and distributed ledger technology, and 5. The evolving nature of cyber threats and data breaches (Bodnar & Powell, 2019). Each of these challenges presents unique opportunities and risks for market participants, and addressing them will require careful consideration and coordination among regulators, industry leaders, and investors.

### **I. The proliferation of fake news and misinformation**

The proliferation of fake news and misinformation in capital markets poses significant challenges to investors, policymakers, and market participants. Recent studies have shown that fake news and misinformation can have a material impact on stock prices, trading volumes, and market sentiment (Bayer et al., 2020; Chen et al., 2019). For example, a study by Bayer et al. (2020) found that fake news articles about certain publicly traded companies can lead to significant stock price movements, even after controlling for other factors such as earnings announcements and macroeconomic indicators. Similarly, Chen et al. (2019) found that misinformation on social media can influence investor behavior and lead to market bubbles and crashes.

To address these challenges, researchers and practitioners have proposed various solutions, including the use of natural language processing techniques to detect fake news and misinformation (Chen et al., 2019). The development of machine learning algorithms to identify and filter out fake news (Bayer et al., 2020); and the implementation of stricter regulations and penalties for spreading false information (Cohen et al., 2019). However, these solutions are not without their limitations, and the issue of fake news and misinformation in capital markets remains a complex and ongoing challenge.

### **II. The rise of algorithmic trading and high frequency trading**

The rise of algorithmic trading and high-frequency trading (HFT) has significantly altered the landscape of modern capital markets. Research has shown that these automated trading strategies can account for a large proportion of trading activity, often at the expense of traditional human traders (Liu et al., 2020). For instance, a study by Liu et al. (2020) found that HFT firms accounted for nearly 70% of all US equity trading volume during peak hours. This dominance has led to

concerns about market fragmentation, liquidity provision, and the potential for flash crashes (Kirilenko et al., 2017).

To mitigate these challenges, regulators and market participants have implemented various measures, such as circuit breakers, speed limits, and dark pools (Amihud & Mendelson, 2018). However, these solutions have been met with mixed success, and the debate surrounding the merits of algorithmic trading and HFT continues (Liu et al., 2020). Some research suggests that these strategies can improve market efficiency and liquidity (Kyle, 2013), while others argue that they exacerbate market volatility and instability (Kirilenko et al., 2017). As the use of algorithmic trading and HFT technologies continues to evolve, understanding their impact on capital markets remains a pressing concern.

### **III. The growing importance of environmental, social, and governance (ESG) factors**

The growing importance of Environmental, Social, and Governance (ESG) factors in capital markets has become a major challenge for investors, corporations, and regulators. Research has shown that ESG factors can have a significant impact on financial performance and risk, and that investors are increasingly incorporating these factors into their investment decisions (Sharpe, 2019). For example, a study by Sharpe (2019) found that companies with strong ESG performance tended to have higher profitability and lower cost of capital. However, integrating ESG factors into investment analysis and decision-making can be complex and time-consuming, and there is a lack of standardization and consistency in how ESG factors are defined and measured (De Coninck & Nair, 2020).

To address these challenges, there has been an increasing focus on developing frameworks and standards for ESG disclosure and reporting, as well as tools and metrics for measuring and managing ESG risks and opportunities (Global Reporting Initiative, 2020). Regulators and standard-setting bodies have also been working to enhance transparency and accountability around ESG issues, such as through the Task Force on Climate-related Financial Disclosures (TCFD) (TCFD, 2020). Despite these efforts, there is still much work to be done to fully integrate ESG considerations into capital markets and to ensure that investors and companies are adequately prepared for the challenges and opportunities presented by this growing area of focus.

#### **IV. The increasing use of block chain and distributed ledger technology**

The increasing use of block chain and DLT in capital markets presents both opportunities and challenges. On the one hand, these technologies have the potential to increase transparency, reduce costs, and enhance security in financial transactions (Chen et al., 2020). For example, a study by Chen et al. (2020) found that block chain-based systems could improve the accuracy and efficiency of securities settlement processes. However, the integration of block chain and DLT into existing financial infrastructure poses significant technical and operational challenges (Wang et al., 2019). These challenges include ensuring interoperability between different block chain networks, addressing scalability issues, and maintaining data privacy and security.

Despite these challenges, there is growing interest in the use of block chain and DLT in capital markets. Regulatory sandboxes and proof-of-concept projects are being established to facilitate experimentation and innovation (Financial Conduct Authority, 2020). Additionally, there are a number of active initiatives aimed at developing industry-specific block chain and DLT solutions, such as the Securities Block chain Consortium (SBC) and the Digital Asset Holdings (DAH) platform (Digital Asset Holdings, 2020). To fully realize the benefits of block chain and DLT in capital markets, it will be important to address the technical and operational challenges associated with their implementation.

#### **V. The evolving nature of cyber threats and data breaches**

The evolving nature of cyber threats and data breaches poses significant challenges to the capital markets sector. Cybercriminals are constantly adapting and refining their tactics, techniques, and procedures (TTPs) to evade detection and exploit vulnerabilities (Carillon, 2020). For instance, a study by Carillon (2020) found that phishing attacks are becoming increasingly sophisticated, making it difficult for organizations to identify and mitigate these threats. Moreover, the sheer volume and complexity of cyberattacks is overwhelming many organizations, leading to increased downtime, lost productivity, and reputational damage (Kruegel, 2019).

To address these challenges, capital markets firms must stay abreast of emerging threats and adopt proactive measures to protect themselves. This includes implementing robust cybersecurity protocols, conducting regular vulnerability assessments, and training employees to recognize and respond to cyber threats (NIST, 2018). Furthermore, collaboration between firms, government

agencies, and other stakeholders is essential to sharing threat intelligence and best practices, ultimately strengthening the overall resilience of the financial sector (FS-ISAC, 2020). By prioritizing cybersecurity and collaborating to address evolving threats, capital markets firms can better safeguard their sensitive data and maintain the trust of their clients and stakeholders.

The preceding discussion has explored the well-documented benefits and challenges associated with the introduction of capital markets in developing economies. These potential outcomes, including improved risk management, access to long-term financing, and opportunities for innovation, alongside potential skill and technology gaps and new financial risks, provide a valuable framework for analyzing the Ethiopian context. This study aims to move beyond this general understanding by delving deeper into the specific implications for Ethiopian commercial banks. By examining the unique characteristics of the Ethiopian financial system and the planned structure of the capital market, the research identified the specific benefits and challenges that Ethiopian banks are likely to encounter.

## 2.2. Empirical Evidence

There has been various research's and papers regarding capital market or stock market around the world; In the Asian context, several empirical studies have examined the relationship between the introduction and implementation of capital markets and their impact on banks. For example, a study conducted by Chen, Lin, and Wei (2012) investigated the effects of the introduction of a stock market on banking sector development in China. The authors employed a difference-in-differences approach, comparing regions with newly established stock markets to control regions without such markets. The findings revealed that the introduction of the stock market positively influenced banking sector development, resulting in improved efficiency, profitability, and risk management for banks.

The successful introduction of a capital market in Ethiopia requires careful preparation from banks, as it can have a profound impact on their operations and competitiveness. Research has consistently shown that banks that are well prepared for capital market introduction tend to perform better and are more resilient to market fluctuations (Claessens et al., 2001). In the Asian context, studies have demonstrated that banks that invest in developing their institutional capacity, risk management systems, and human resources are more likely to thrive in a capital market environment (Lee, 2014; Nguyen, 2017). For instance, a study on Vietnamese banks found that

those with stronger institutional capacity were better equipped to manage the risks associated with capital market introduction (Nguyen et al., 2018).

The relationship between banks and capital markets is a crucial aspect of the financial system in Singapore. The country's financial sector is characterized by a high level of banking penetration, with a large number of domestic and foreign banks operating in the country (Lim, 2012). The capital market in Singapore is also well developed, with a range of financial instruments available to investors (Tan, 2013).

Several studies have examined the relationship between banks and capital markets in Singapore. For example, Cheng and Fung (2016) investigated the impact of monetary policy on stock prices and bank lending in Singapore. They found that changes in interest rates have a significant impact on stock prices and bank lending, with an increase in interest rates leading to a decrease in stock prices and a decrease in bank lending.

Hasan and Lahiri (2017) explored the relationship between bank credit and stock market development in Singapore. They found that there is a positive relationship between bank credit and stock market development, with an increase in bank credit leading to an increase in stock market development.

Liu and Zhang (2018) examined the relationship between bank deposits and stock prices in Singapore. They found that there is a positive relationship between bank deposits and stock prices, with an increase in bank deposits leading to an increase in stock prices.

Ong and Tan (2019) investigated the impact of bank lending on stock market liquidity in Singapore. They found that bank lending has a positive impact on stock market liquidity, with an increase in bank lending leading to an increase in stock market liquidity.

Overall, the literature suggests that there is a strong relationship between banks and capital markets in Singapore. Changes in monetary policy, bank credit, deposits, and lending all have a significant impact on the stock market and its liquidity. These findings have important implications for policymakers and regulators in Singapore, as they provide insights into the factors that contribute to a stable and efficient financial system.

In another study focused on the implementation of capital markets in South Korea, Choi and Kim (2015) examined the impact of stock market development on bank lending activities. Utilizing a panel data analysis, they found that the expansion of the stock market positively affected bank lending, enhancing banks' capacity to provide credit to the economy. The study also highlighted that increased stock market liquidity was associated with a higher volume of bank lending, suggesting that a vibrant capital market contributes to a more active and dynamic banking sector.

An empirical study by Hasan, Kobeissi, and Sun (2018) explored the impact of capital market development on bank stability in a sample of Asian countries. The researchers utilized various measures of capital market development and employed dynamic panel data models. The findings indicated a positive relationship between capital market development and bank stability, suggesting that the establishment and growth of capital markets contribute to a more stable banking sector.

These empirical studies on the Asian experience provide evidence of the positive impact of capital market introduction and implementation on banks. They highlight improvements in banking sector performance, including efficiency, profitability, risk management, lending activities, and stability. Incorporating these empirical findings into the thesis contributes to a deeper understanding of the potential implications of introducing a capital market in Ethiopian banks and its relevance to the objective of the study.

The introduction of a capital market has significant financial implications for banks. Chen, Lin, and Wei (2012) found that the establishment of a stock market positively influences banking sector development, leading to improved efficiency, profitability, and risk management. As the capital market provides an alternative avenue for raising funds, banks may experience changes in their funding sources. They can access additional capital through equity offerings, which can enhance their capital base and support lending activities.

Stock market development, as observed in the study by Choi and Kim (2015), has a direct impact on bank lending. A vibrant capital market facilitates improved stock liquidity and enhances banks' lending capacity. As stock market liquidity increases, banks can sell their equity holdings more easily, generating liquidity that can be channeled into lending activities. This increased access to liquidity promotes the expansion of bank lending and supports economic growth.

Capital market development also affects the risk profile of banks. Hasan, Kobeissi, and Sun (2018) demonstrated that a well-developed capital market contributes to bank stability. As capital markets deepen, banks can diversify their funding sources beyond traditional deposits, reducing their dependence on short-term liabilities and enhancing their resilience to financial shocks. This diversification improves the risk profile of banks and enhances their ability to withstand adverse economic conditions.

The capital market provides opportunities for banks to engage in fee-based activities. Banks can offer various services related to the capital market, such as underwriting, brokerage, and advisory services. These activities generate additional revenue streams for banks and contribute to their profitability. Research by Beck, Demirgüç-Kunt, and Levine (2010) emphasizes the positive relationship between financial market development, including capital markets, and bank profitability.

The capital market can also enhance the valuation of banks. As banks become listed entities in the capital market, their shares become tradable, leading to increased market visibility and transparency. This increased visibility can positively impact the valuation of banks, potentially resulting in higher market capitalization and improved access to capital. Higher valuations can enhance the financial strength of banks and facilitate future growth opportunities.

The introduction of a capital market provides opportunities for banks to engage in mergers and acquisitions (M&A) activities. A well-functioning capital market can facilitate M&A transactions by providing a platform for the exchange of shares and enabling price discovery. M&A activities can lead to consolidation within the banking sector, resulting in larger and more the financial implications of the capital market on banks are substantial. The capital market provides alternative funding sources, influences lending activities, improves risk profiles, generates fee-based revenue, enhances bank valuation, and facilitates M&A activities. Understanding these implications is crucial for banks in Ethiopia, as they prepare for the implementation of a capital market and seek to leverage the opportunities and challenges presented by this new financial landscape.

Effective share management systems are essential for banks operating in the capital market. A recent study by Wang, Chen, and Liu (2021) examined the challenges and strategies for share management in the context of the Chinese capital market. The researchers emphasized the

importance of developing efficient order matching algorithms and enhancing trading system capacity to handle high-frequency trading and the rapid influx of share orders.

Managing liquidity in share transactions is a critical aspect of share management for banks. A study by Liu, Zhang, and Zhu (2020) investigated liquidity provision strategies in the Chinese capital market. The authors highlighted the significance of market-making activities and the role of designated market makers in ensuring sufficient liquidity for share trading. The findings suggested that effective liquidity management enhances market efficiency and reduces transaction costs for banks and investors.

Maintaining share price stability is another important consideration in share management. A recent paper by Kang and Kim (2021) examined the impact of market volatility on bank shares in the Korean capital market. The study highlighted the role of circuit breakers and price limit mechanisms in managing extreme price movements and stabilizing share prices during periods of market turbulence.

Investor protection and market integrity are crucial components of share management. A study by Beck, Chen, and Lin (2020) explored the role of regulatory frameworks in ensuring market transparency and investor confidence. The authors emphasized the importance of regulatory oversight, fair disclosure practices, and enforcement mechanisms to safeguard the interests of investors and maintain market integrity.

Efficient post-trade processes are vital for seamless share management. A recent research paper by Huang, Liu, and Pan (2021) investigated the post-trade infrastructure in the Chinese capital market. The authors highlighted the significance of developing robust settlement systems, improving post-trade information transparency, and streamlining clearance and settlement processes. The findings emphasized the role of efficient post-trade infrastructure in reducing settlement risk and enhancing overall market efficiency.

Effective risk management is essential in share management for banks. A study by Pinto, Couto, and Figueiredo (2019) explored the challenges of risk management in the Brazilian capital market. The authors highlighted the importance of implementing comprehensive risk management frameworks, including market risk, credit risk, and operational risk, to ensure the soundness and stability of banks operating in the capital market.

North Africa, consisting of countries such as Egypt, Morocco, Tunisia, Algeria, and Libya, has experienced significant economic growth and development in recent years. This growth has been accompanied by an expansion of the financial sector, including capital markets and banks.

Several studies have examined the relationship between capital markets and banks in North Africa. For example, a study by Abdel-Rahman (2016) found that there is a positive correlation between the development of capital markets and economic growth in Egypt. Similarly, a study by Ben-Ayed (2017) found that the Tunisian stock market has a positive impact on economic growth, and that the banking sector plays a crucial role in facilitating this relationship.

Other studies have focused specifically on the relationship between banks and capital markets in North Africa. For example, a study by Boulila and Hussainey (2017) found that there is a positive relationship between bank financing and stock market development in Tunisia. Similarly, a study by Hussainey and Al-Salem (2017) found that there is a positive relationship between bank loans and stock market performance in Kuwait, which suggests that banks play a crucial role in supporting the development of capital markets.

However, other studies have found mixed results. For example, a study by M'Hammedi and M'Hammedi (2017) found that there is no significant relationship between bank loans and stock market performance in Morocco. Similarly, a study by Sbai and Sbai (2018) found that there is no significant relationship between bank deposits and stock market performance in Tunisia.

The literature suggests that there is a positive relationship between capital markets and banks in North Africa, and that banks play a crucial role in supporting the development of capital markets in the region. However, there is a need for further research to better understand the specific factors that influence this relationship, and to identify the ways in which banks can most effectively support the development of capital markets in North Africa.

Nigeria has one of the largest and most developed capital markets in West Africa. The Nigerian Stock Exchange (NSE) is the second-largest stock exchange in Africa, with a market capitalization of over \$100 billion. One of the key themes that has emerged from this literature is the importance of the capital market in promoting economic growth and development in Nigeria. For example, a study by Akinlo (2012) found that the capital market plays a crucial role in mobilizing savings and channeling them into productive investments, which in turn helps to promote economic growth

and development. Similarly, a study by Adeola and Oladeji (2015) found that the capital market has a positive impact on economic development in Nigeria, as it provides a platform for companies to raise capital and invest in long-term projects.

Another theme that has emerged from the literature is the role of banks in the capital market. Banks play a crucial role in the capital market by providing financial services to companies and investors, and by underwriting and distributing securities. For example, a study by Adegbite and Ademola (2014) found that banks play a significant role in the issuance of shares and bonds in the Nigerian capital market, and that their participation helps to ensure the success of capital market transactions. Similarly, a study by Adebisi and Adeyinka (2017) found that banks' involvement in the capital market helps to promote financial stability and economic development in Nigeria.

However, the literature has also highlighted some challenges facing the Nigerian capital market and the relationship between banks and the capital market. For example, a study by Akinlo (2012) found that the Nigerian capital market is still relatively underdeveloped, and that this has limited its ability to mobilize savings and channel them into productive investments. Similarly, a study by Adeola and Oladeji (2015) found that the capital market in Nigeria is faced with a number of challenges, including inadequate investor education, poor market infrastructure, and inadequate regulatory frameworks.

In terms of the relationship between banks and the capital market, the literature has highlighted some issues that need to be addressed. For example, a study by Adegbite and Ademola (2014) found that there is a lack of awareness and understanding among banks of the benefits of participating in the capital market, which has limited their involvement in capital market transactions. Similarly, a study by Adebisi and Adeyinka (2017) found that there are challenges facing the relationship between banks and the capital market, including inadequate communication and collaboration between banks and capital market operators, and inadequate understanding of the capital market by bank officials.

Overall, the literature suggests that the Nigerian capital market has the potential to play a significant role in promoting economic growth and development in Nigeria, but that there are a number of challenges that need to be addressed in order to fully realize this potential. Banks play a crucial role in the capital market, but there are also challenges facing their relationship with the capital market that need to be addressed.

## *Ethiopian Literature*

Several research studies have already been conducted within Ethiopia to examine the potential impact of the capital market's establishment, both on the overall economy and on specific sectors.

The development of the capital market in Ethiopia is expected to have a significant impact on the country's economy. According to the World Bank (2017), a well-functioning capital market can help mobilize domestic savings, increase access to finance, and promote economic growth. In the Ethiopian context, the capital market is seen as a key driver of economic development, with the potential to attract foreign investment and increase the competitiveness of the financial sector (National Bank of Ethiopia, 2020). Moreover, a study by the Ethiopian Development Research Institute (2019) found that the capital market can play a crucial role in promoting financial inclusion, reducing poverty, and improving the overall economic well-being of Ethiopians.

However, the development of the capital market in Ethiopia also faces several challenges. For instance, the lack of a robust regulatory framework, limited financial infrastructure, and inadequate investor education are some of the key obstacles that need to be addressed (Addis Ababa University, 2018). Furthermore, the Ethiopian capital market is characterized by a high level of volatility, which can have negative impacts on the economy (International Monetary Fund, 2019). Despite these challenges, the Ethiopian government has been actively promoting the development of the capital market, with the aim of creating a more diversified and resilient financial system (Ministry of Finance and Economic Development, 2020).

A study by Bekele (2021) examined the potential impact of establishing a capital market on commercial banks in Ethiopia. The research explored how capital markets operate in other African countries, the likely challenges and opportunities for Ethiopian commercial banks, and what preconditions banks need to prepare before a capital market is established. Employing a mixed methods approach, the study collected qualitative data through focus group discussions with experts and analyzed secondary data from literature and websites.

Bekele's findings indicated that while a capital market could bring opportunities for banks to diversify their earnings and expand services, it also poses challenges such as increased competition for financing and potential economic instability from market fluctuations. The study reviewed capital market experiences in other African countries like South Africa, Ghana and Kenya, noting

both economic benefits and regulatory challenges (Bekele, 2021). It identified key roles of capital markets in stimulating investment, redistributing wealth, and serving as an economic indicator. For banks specifically, opportunities included participating as intermediaries and investors, while challenges involved adapting to new technologies and changes in corporate financing.

The research recommended that commercial banks modify their business models to create new products related to investment banking, differentiate their offerings, invest in human resources and technology, and work on awareness creation for customers (Bekele, 2021). It suggested banks should increase their capital before the securities market is established to mitigate risks. The study also emphasized the need for a well-functioning legal and regulatory framework to support a healthy financial system as the capital market develops. Overall, Bekele's (2021) research provided insights to help banks and policymakers prepare for the introduction of a capital market in Ethiopia.

According to Access Capital Ethiopia's research (2020), the capital market in Ethiopia is still in its infancy, with limited liquidity and trading activity. The study found that the lack of a robust regulatory framework, inadequate investor education, and limited financial infrastructure are major obstacles to the development of the capital market in Ethiopia (Access Capital Ethiopia, 2020). Moreover, the research highlighted the need for a more diversified range of financial instruments, including bonds and derivatives, to deepen the capital market and attract more investors.

The research also identified opportunities for the capital market to play a more significant role in mobilizing domestic savings and promoting economic growth in Ethiopia. Access Capital Ethiopia's study (2020) suggested that the capital market can help to increase access to finance for small and medium-sized enterprises (SMEs), which are critical to the country's economic development. Furthermore, the research emphasized the need for greater collaboration between the government, regulatory bodies, and market participants to create a more conducive environment for the growth of the capital market in Ethiopia.

In terms of the regulatory framework, the study found that the existing laws and regulations governing the capital market in Ethiopia are inadequate and need to be revised to align with international best practices (Access Capital Ethiopia, 2020). The research recommended the establishment of a dedicated capital market authority to oversee the development of the market and protect the interests of investors. Additionally, the study suggested that the government should

provide incentives to encourage the listing of companies on the stock exchange, such as tax breaks and subsidies.

The research also examined the role of technology in the development of the capital market in Ethiopia. Access Capital Ethiopia's study (2020) found that the use of technology, such as online trading platforms and mobile payment systems, can help to increase access to the capital market, particularly for retail investors. The research recommended that the government and regulatory bodies should provide support for the development of fintech companies and other technology-enabled financial services.

In conclusion, Access Capital Ethiopia's research provides valuable insights into the challenges and opportunities facing the capital market in Ethiopia. The study's recommendations for regulatory reforms, increased collaboration between stakeholders, and the use of technology to increase access to the market are crucial for the development of a vibrant and efficient capital market in Ethiopia.

Tiruneh (2012) examined the environmental foundation, challenges and opportunities for establishing financial markets in Ethiopia. The study aimed to assess whether Ethiopia would benefit from establishing a financial market, evaluate if there is a favorable environmental foundation, and identify key challenges and opportunities. The researcher employed a mixed methods approach, relying on secondary data from various sources and using both qualitative descriptive analysis and quantitative data analysis.

The findings indicated that establishing financial markets in Ethiopia could provide substantial benefits for economic development by promoting private sector growth, enhancing liquidity, mobilizing local savings, increasing competition among financial institutions, facilitating remittances, and improving corporate governance. The study found that while some favorable environmental conditions existed, such as a growing shareholding constituency, significant challenges remained in the political, economic, social and technological spheres. Key challenges identified included the need for appropriate regulatory frameworks, building public awareness and trust, and developing the necessary technological infrastructure.

Based on the analysis, Tiruneh (2012) recommended that the Ethiopian government take timely actions to further investigate the environmental situation, appreciate the potential opportunities,

and prepare to address the direct challenges of establishing financial markets. The author emphasized the importance of creating an appropriate legal and regulatory framework, improving corporate financial reporting and transparency, and promoting specialized financial institutions and services as crucial steps toward developing functional financial markets in Ethiopia.

### ***Conclusion***

This literature review has examined the potential implications of capital market for Ethiopian commercial banks, focusing on share management practices and financial management. The reviewed studies provide valuable insights from various regions, including Asia, North Africa, and West Africa.

### ***Summary of Literature review***

- The introduction of a capital market can positively impact banks by improving efficiency, profitability, risk management, lending activities, and stability (Chen et al., 2012; Claessens et al., 2001; Lee, 2014; Nguyen, 2017; Nguyen et al., 2018).
- Capital markets offer alternative funding sources (equity offerings) and influence lending activities through improved stock market liquidity (Chen et al., 2012; Choi and Kim, 2015).
- A well-developed capital market contributes to bank stability by allowing for diversification of funding sources (Hasan, Kobeissi, and Sun, 2018).
- Capital markets present opportunities for banks to generate fee-based income through services like underwriting, brokerage, and advisory (Beck, Demirgüç-Kunt, and Levine, 2010).
- Bank valuations can potentially improve with increased market visibility and transparency due to capital market listing (positive impact on market capitalization and access to capital).
- Capital markets can facilitate mergers and acquisitions (M&A) activities by providing a platform for share exchange and price discovery (leading to consolidation and a more competitive banking sector).
- Efficient order matching algorithms and high-capacity trading systems are crucial for handling the fast-paced nature of capital markets (Wang, Chen, and Liu, 2021).

- Liquidity management through market-making activities and designated market makers is essential for smooth share transactions (Liu, Zhang, and Zhu, 2020).
- Circuit breakers and price limit mechanisms can help maintain share price stability during periods of market volatility (Kang and Kim, 2021).
- Regulatory frameworks promoting market transparency, fair disclosure practices, and investor protection are critical for market integrity (Beck, Chen, and Lin, 2020).
- Robust settlement systems, improved post-trade information transparency, and streamlined clearance and settlement processes contribute to efficient post-trade share management (Huang, Liu, and Pan, 2021).
- Implementing comprehensive risk management frameworks (market, credit, operational) is essential for ensuring the soundness of banks operating in the capital market (Pinto, Couto, and Figueiredo, 2019).

#### *Ethiopian Literature*

- The development of the capital market in Ethiopia is expected to have a significant impact on the country's economy, including mobilizing domestic savings, increasing access to finance, and promoting economic growth (World Bank, 2017; National Bank of Ethiopia, 2020).
- The capital market can play a crucial role in promoting financial inclusion, reducing poverty, and improving economic well-being (Ethiopian Development Research Institute, 2019).
- A study by Bekele (2021) found that the establishment of a capital market in Ethiopia could bring opportunities for banks to diversify their earnings and expand services, but also poses challenges such as increased competition for financing and potential economic instability from market fluctuations.
- Access Capital Ethiopia's research (2020) found that the capital market in Ethiopia is still in its infancy, with limited liquidity and trading activity, and identified the need for a more diversified range of financial instruments, including bonds and derivatives, to deepen the capital market and attract more investors.
- The study also highlighted the need for a robust regulatory framework, adequate investor education, and improved financial infrastructure to support the development of the capital market (Access Capital Ethiopia, 2020).

- Tiruneh (2012) examined the environmental foundation, challenges, and opportunities for establishing financial markets in Ethiopia and found that establishing financial markets could provide substantial benefits for economic development, but significant challenges remain in the political, economic, social, and technological spheres.
- The study recommended that the Ethiopian government take timely actions to further investigate the environmental situation, appreciate the potential opportunities, and prepare to address the direct challenges of establishing financial markets (Tiruneh, 2012).

## CHAPTER THREE

### 3. RESEARCH METHODOLOGY

This chapter outlines the methodological approach designed to investigate the perception of Ethiopian commercial banks for the upcoming capital market. By drawing upon experiences documented in the literature from other countries that have implemented capital markets, this study aims to identify potential implications for Ethiopian banks. A robust research methodology is crucial for ensuring the reliability and validity of the study's findings. This chapter details the chosen research design, data collection methods, sample selection strategy, and data analysis techniques employed to achieve the research objectives.

#### 3.1. Research Design

This study employed a descriptive research design in order to achieve the goal. A descriptive research design is a research approach that aims to describe and explain a phenomenon, concept, or issue in detail, often to identify characteristics, frequencies, and trends that can inform future research or decision-making (Creswell, 2014; Saunders et al., 2016). This design is typically used when there is a need to provide a comprehensive and accurate picture of a topic, and the researcher seeks to describe the characteristics of a particular population or phenomenon (Merriam, 2009), such as the current state of the Ethiopian banking sector and its relationship with the capital market.

#### 3.2. Research Approach

This study employs a descriptive research design to comprehensively describe the current state of the Ethiopian banking sector and its relationship with the capital market. This approach focuses on collecting and analyzing qualitative data from questionnaires to provide a detailed and accurate picture of the sector. The questionnaire responses from banking professionals offered a rich understanding of the factors influencing bank performance and decision-making processes. By analyzing these qualitative insights, this research aims to identify key themes and patterns that can inform policy decisions designed to promote a smooth transition and foster financial stability and growth within the Ethiopian financial system. This descriptive study provides a comprehensive understanding of the Ethiopian banking sector, which can ultimately inform decision-making and policy development.

### 3.3. Source of Data

Primary data was collected from middle and high-level managers from five prominent Ethiopian banks, which were purposively sampled for this study. These banks were selected because they are among the strongest in the country and are expected to be listed on the capital market once it is introduced, making them representative of the sector. The questionnaire aimed to gain a nuanced understanding of the banks' perspectives on the upcoming capital market. The insights gathered from these managers were particularly valuable in describing the banks' current state, their risk tolerance, and their planned strategies for engaging with the capital market. By targeting these key informants, this study was able to gather rich and informative data that provides a comprehensive understanding of the Ethiopian banking sector's readiness for the capital market.

### 3.4. Type of Data

This study employed a combination of primary and secondary data to achieve its research objectives. The secondary data was reviewing literature regarding capital market and commercial banks relation.

- Primary data: A questionnaire was administered to bank employees to gather firsthand insights into their perceptions of Ethiopian banks' perception for capital market introduction.

### 3.5. Data collection method

A questionnaire served as the primary tool for collecting data from sampled Ethiopian commercial banks. This survey was designed to gather insight from mid and high-level managers from various departments. The questionnaire assessed their perceptions of the banks' perception for capital market implication, their prior experiences with relevant financial instruments, and their anticipated challenges and opportunities.

### 3.6. Unit of analysis

This study employed the mid and high level managers at the commercial banks as the unit of analysis. Given the research objective of investigating bank perception for capital market, data collection targeted mid and high level managers directly involved in relevant departments. By focusing on the banks in general, the study gained a detailed and nuanced understanding of

perception within each sampled bank. This approach allowed for capturing the various factors influencing employee and, consequently, bank readiness for the new financial landscape in Ethiopia. The individual employee served as the most suitable unit of analysis because the research aimed to understand employee perceptions, experiences, and preparedness related to the upcoming capital market.

### 3.7. Sample Selection

To gain comprehensive insights into the perspectives of Ethiopian commercial banks on the upcoming capital market, this research employed a purposive sampling strategy. This approach targets participants with specific characteristics or experiences relevant to the research objectives (Patton, 2002). In this case, the research focused on capturing the perspectives of key stakeholders within established and well-resourced Ethiopian banks. The rationale behind this selection is that these banks are likely to play a significant role in the development and operation of the capital market due to their size, experience, and operational capacity.

Five prominent Ethiopian commercial banks were chosen for the study: Awash Bank, Abyssinia Bank, Hibret Bank, Dashen Bank, and Zemen Bank. These banks represent a diverse range of institutions in terms of size and ownership structure, allowing for a broader understanding of potential variations in preparedness and perspectives across the Ethiopian banking sector..

#### 3.7.1. Sampling Techniques

This research employed a purposive sampling strategy to select participants for a targeted survey. This approach, as outlined by Patton (2002), focuses on recruiting individuals with specific characteristics relevant to the research objectives. In this case, the research aimed to capture the perspectives of key decision-makers within Ethiopian commercial banks. The survey was distributed to a total of 120 mid and high-level managers from the five purposively sampled banks: Awash Bank, Abyssinia Bank, Hibret Bank, Dashen Bank, and Zemen Bank. These managers were specifically chosen because they hold positions directly involved in strategic decision-making within their respective banks, particularly those related to capital market activities. This targeted approach ensured that the survey reached individuals with the knowledge and experience necessary to provide insightful responses on the potential impact of the capital market on Ethiopian commercial banks. Pleasingly, a response rate of 118 participants (98%) was achieved, providing a strong foundation for data analysis.

### *Confidentiality and Representativeness*

To enhance the credibility of the findings, participants were assured of confidentiality and anonymity throughout the research process. Efforts were also made to achieve a diverse sample that reflects the target population. This included selecting participants from various Ethiopian commercial banks with different sizes and ownership structures.

## 3.8. Data Analysis Techniques

This study employed a descriptive research design, and therefore, the data analysis focused on qualitative techniques to describe and summarize the data collected through the questionnaire survey.

*Content Analysis:* The questionnaire responses were analyzed to identify patterns, themes, and relationships. This analysis provided a detailed and nuanced understanding of the banks' perspectives on the upcoming capital market, including their perceptions, concerns, and strategies for engaging with the market. For example, the analysis revealed common themes related to employee awareness of the capital market, risk tolerance, and planned strategies for engaging with the capital market.

## 3.9. Ethical Issues

This study adhered to ethical principles throughout the research process. Participants' privacy was maintained, and informed consent was obtained, ensuring participation was voluntary. Confidentiality of data and participant anonymity were guaranteed. Collective terms such as "respondents" or "study participants" was used in reporting the findings, unless a participant explicitly consents to being identified.

The research adhered to responsible citation practices, and all sources are appropriately acknowledged.

## CHAPTER FOUR

### 4. RESULT AND DISCUSSION

#### 4.1. Introduction

The introduction of a capital market in Ethiopia is expected to have far-reaching implications for the commercial banking sector. This chapter presents the findings of a study that investigated the perception of Ethiopian commercial banks for this initial phase, using lessons from other countries' experiences. The study aimed to assess the perceptions of Ethiopian banks regarding the potential benefits and challenges of capital market, to examine the current share management practices of Ethiopian banks, and to investigate the potential risks associated with the proposed capital market. The chapter is organized into two main sections, presenting the results of the study and discussing the implications of the findings. To achieve these objectives, the study employed a descriptive approach, using qualitative data collection and analysis methods. The study also reviewed relevant literature and conducted a thorough analysis of the current regulatory framework governing the Ethiopian banking sector. The findings of the study reveal valuable insights into the strengths and weaknesses of Ethiopian commercial banks, highlighting areas that require attention and improvement to ensure a successful implementation of the capital market.

#### 4.2. Results and Discussion

This chapter presents the results of the study, which aimed to describe the current state of the Ethiopian banking sector's readiness for the upcoming capital market. The findings are based on the analysis of questionnaire responses from middle and high-level managers from five prominent Ethiopian banks. The results provide a nuanced understanding of the banks' perspectives on the capital market, including their perceptions of the benefits and challenges it poses, as well as their strategies for engaging with the market. The discussion that follows highlights the key themes and patterns that emerged from the data, offering insights into the opportunities and obstacles that the capital market presents for commercial banks in Ethiopia.

##### 4.2.1. Response Rate

A total of (120) questioner was distributed to the sampled bank employees. From the total distributed questioner (118) responded back.

	<i>Description</i>	<i>Frequency</i>	<i>Percentage</i>
<b>Gender</b>	Male	87	74%
	Female	31	26%
	<b>Total</b>	118	100%
<b>Age</b>	25 - 34	47	39.8%
	35 - 44	31	26.2%
	45 - 54	29	25%
	55 - 64	11	9%
	Above 65	-	-
	<b>Total</b>	118	100%
<b>Education Level</b>	Bachelor Degree	56	47.5%
	Master's Degree	52	44%
	PhD	1	0.9%
	Others	9	7.6%
	<b>Total</b>	118	100%
<b>Job Experience</b>	0 – 3 Years	21	17.8%
	3 – 6 Years	33	28%
	6 – 10 Years	39	33%
	Over 10 Years	25	21.2%
	<b>Total</b>	118	100%

Table 1: General Information of respondents

The demographic characteristics of the sample population reveal that the majority are male (74%), with females making up 26% of the respondents. In terms of age, the largest proportion falls within the 25-34 year range (39.8%), followed by 35-44 years (26.2%), and 45-54 years (25%). The education level of the participants shows that nearly half hold a Bachelor's degree (47.5%), while approximately 44% possess a Master's degree. The job experience of the respondents varies, with 17.8% having 0-3 years of experience, 33% having 3-6 years, 39% having 6-10 years, and 21.2%

having over 10 years of experience. Overall, the demographic characteristics of the respondents suggest a diverse and experienced sample population.

#### 4.2.2. Benefits of Capital Market to Commercial Banks

The impending introduction of a capital market in Ethiopia is poised to revolutionize the country's commercial banking landscape. As revealed by our survey findings, commercial banks in Ethiopia are likely to reap a range of benefits from the capital market, including enhanced funding opportunities, improved risk management, and increased competitiveness. This section delves into the various advantages that the capital market is expected to bring to Ethiopian commercial banks, shedding light on the transformative potential of this emerging market

##### *Embracing Change: A Catalyst for Increased Dynamism*

The findings of this study suggest that the introduction of a capital market in Ethiopia is likely to foster a more dynamic and competitive financial environment, a notion supported by existing literature (Beck & Levine, 2010; Levine, 2002). The capital market's potential to introduce new funding avenues may encourage banks to become more adaptable and responsive to changing market conditions. This is consistent with the views of scholars who argue that financial sector development can promote economic growth and stability (King & Levine, 1993). By embracing the capital market, commercial banks in Ethiopia may be motivated to innovate and improve their efficiency, ultimately leading to a more vibrant and competitive financial sector."

The introduction of a capital market in Ethiopia is expected to have a significant impact on the country's economy, including mobilizing domestic savings, increasing access to finance, and promoting economic growth (World Bank, 2017; National Bank of Ethiopia, 2020). The capital market can play a crucial role in promoting financial inclusion, reducing poverty, and improving economic well-being (Ethiopian Development Research Institute, 2019). Moreover, a study by Bekele (2021) found that the establishment of a capital market in Ethiopia could bring opportunities for banks to diversify their earnings and expand services, but also poses challenges such as increased competition for financing and potential economic instability from market fluctuations.

In the context of Ethiopian banks, the introduction of a capital market can lead to a diversification of funding sources. Traditionally, Ethiopian banks have relied heavily on deposits as their primary

source of funding. However, as Allen and Gale (2000) point out, a developed capital market offers a wider range of funding instruments, such as bonds and equity issuance. This diversification can mitigate the risks associated with overdependence on a single funding source, such as deposit volatility (Allen & Gale, 2000). Furthermore, Access Capital Ethiopia's research (2020) found that the capital market in Ethiopia is still in its infancy, with limited liquidity and trading activity, and identified the need for a more diversified range of financial instruments, including bonds and derivatives, to deepen the capital market and attract more investors.

The survey results support this notion, with banks reporting a positive perception of their preparedness in areas like financial infrastructure, potentially indicating their readiness to adapt to these new funding avenues. This is in line with Bekele's (2021) research, which recommended that commercial banks modify their business models to create new products related to investment banking, differentiate their offerings, invest in human resources and technology, and work on awareness creation for customers. Overall, the introduction of a capital market in Ethiopia is expected to have a positive impact on the banking sector, providing opportunities for diversification and growth, while also posing challenges that need to be addressed through regulatory reforms and infrastructure development.

#### *Experience and the Challenge of Path Dependence*

The introduction of a capital market in Ethiopia is expected to have a significant impact on the country's economy, including mobilizing domestic savings, increasing access to finance, and promoting economic growth (World Bank, 2017; National Bank of Ethiopia, 2020). The capital market can play a crucial role in promoting financial inclusion, reducing poverty, and improving economic well-being (Ethiopian Development Research Institute, 2019). Moreover, a study by Bekele (2021) found that the establishment of a capital market in Ethiopia could bring opportunities for banks to diversify their earnings and expand services, but also poses challenges such as increased competition for financing and potential economic instability from market fluctuations.

In the context of Ethiopian banks, experience in share sales and management is traditionally considered a benefit for capital market participation (Allen & Gale, 2000; Levine, 1991). However, in the Ethiopian context, banks with limited experience in share sales and management can be more open to adapting their structure to the new capital market reality. This is because established

practices from developed markets might need to be adapted to the specific context of a developing capital market (Claessens & Djankov, 2003). The capital market in Ethiopia is still in its infancy, with limited liquidity and trading activity, and there is a need for a more diversified range of financial instruments, including bonds and derivatives, to deepen the capital market and attract more investors (Access Capital Ethiopia, 2020).

### *The Power of Knowledge: Employee Awareness and Successful Change Management*

The introduction of a capital market in Ethiopia is expected to have a significant impact on the country's economy, including mobilizing domestic savings, increasing access to finance, and promoting economic growth (World Bank, 2017; National Bank of Ethiopia, 2020). The capital market can play a crucial role in promoting financial inclusion, reducing poverty, and improving economic well-being (Ethiopian Development Research Institute, 2019). Moreover, a study by Bekele (2021) found that the establishment of a capital market in Ethiopia could bring opportunities for banks to diversify their earnings and expand services, but also poses challenges such as increased competition for financing and potential economic instability from market fluctuations.

Employee awareness is a critical factor in a bank's ability to adjust to changes in share management practices in the context of a capital market. Banks with employees who are aware of the implications of the capital market on share management practices are more likely to embrace the necessary adjustments. This is in line with the broader literature on knowledge management and organizational change (Davenport & Prusak, 1998), which highlights the crucial role of employee understanding in successfully navigating organizational transformations. Employee awareness is not just important for general capital market understanding, but also for understanding the specific implications of the capital market on share management practices (Billett, 2000; Easterby-Smith et al., 2000).

The introduction of a capital market in Ethiopia offers a range of benefits for banks, including access to long-term financing and risk management. Additionally, the ability to adjust to changes in financial structure is an important advantage of capital market participation. However, established practices from developed markets might need to be adapted to the specific context of a developing capital market (Claessens & Djankov, 2003). By acknowledging these dynamics,

Ethiopian banks can leverage the full spectrum of benefits offered by the capital market and navigate the transition towards a more robust and competitive financial sector.

The introduction of a capital market in Ethiopia is expected to have a significant impact on the country's economy, including mobilizing domestic savings, increasing access to finance, and promoting economic growth (World Bank, 2017; National Bank of Ethiopia, 2020). The capital market can play a crucial role in promoting financial inclusion, reducing poverty, and improving economic well-being (Ethiopian Development Research Institute, 2019). Moreover, a study by Bekele (2021) found that the establishment of a capital market in Ethiopia could bring opportunities for banks to diversify their earnings and expand services, but also poses challenges such as increased competition for financing and potential economic instability from market fluctuations.

Ethiopian commercial banks can expect several key benefits from capital market participation. A crucial factor influencing their ability to reap these benefits is their preparedness to adapt and utilize their resources effectively within the new market environment. The benefits of capital market participation include:

1. Improved Risk Management Capabilities:

One of the key benefits of capital market participation for Ethiopian commercial banks is the improvement of their risk management capabilities. The capital market provides access to a range of financial instruments, such as securitization and derivatives, which can be used to manage and mitigate risk (Levine, 2002). By utilizing these tools, banks can better manage their exposure to market fluctuations, credit risk, and other types of risk, ultimately leading to a more stable and resilient financial institution. Furthermore, the capital market requires banks to have well-developed internal controls, including robust risk management systems, strong governance, and effective regulatory compliance. By leveraging these internal controls, banks can further improve their risk management practices, leading to enhanced financial stability and performance.

2. Access to Long-Term Financing and Diversification of Funding Sources:

Another significant benefit of capital market participation for Ethiopian commercial banks is the access to long-term financing and diversification of funding sources. The capital market

provides an avenue for banks to access long-term funds through the issuance of bonds and equity, which is essential for supporting long-term investments (Levine, 1991; Beck & Levine, 2004). In contrast to the traditional banking system, the capital market offers a new and alternative route for banks to access funds through various channels. By tapping into the capital market, banks can reduce their reliance on deposits and mitigate risk (Allen & Gale, 2000). This diversification of funding sources can help banks to better manage their liquidity, reduce their exposure to funding risks, and support their long-term growth and development.

### 3. Enhanced Efficiency and Innovation:

A third key benefit of capital market participation for Ethiopian commercial banks is the potential for enhanced efficiency and innovation. The capital market creates a competitive environment that incentivizes banks to become more efficient and innovative in order to attract investors and access funds (Demirgüç-Kunt & Levine, 2009). This competitive pressure can drive banks to optimize their operations, streamline their processes, and make more effective use of their resources. As a result, banks can improve their overall performance, reduce costs, and develop new products and services that meet the evolving needs of their customers. By pushing the boundaries of efficiency and effectiveness, banks can gain a competitive edge in the market and achieve sustainable growth and development.

### 4. The Evolution of Banking: Universal Banks and the Capital Market Opportunity in Ethiopia:

A fourth key benefit of capital market participation for Ethiopian commercial banks is the opportunity to evolve into universal banks, offering a wide range of financial services under one roof. Universal banks provide a broad array of products and services, including deposit taking, lending, credit cards, mortgages, securities underwriting, brokerage, and asset management, among others (Saunders & Cornett, 2018). This allows them to serve as a one-stop shop for customers, providing convenience and a comprehensive approach to managing their financial needs. The capital market presents an opportunity for Ethiopian commercial banks to develop and evolve to the next level, offering a more diverse range of financial services to their customers. However, becoming a universal bank is a complex strategic decision that requires careful consideration of the challenges and opportunities involved. While the capital market introduction can create opportunities for diversification, it may not

be the most immediate benefit for all Ethiopian banks, and each bank must carefully weigh the potential benefits against the potential challenges and complexities involved.

#### 4.2.3. Challenges of Capital Market to Commercial Banks

The introduction of a capital market in Ethiopia brings both opportunities and obstacles for the country's commercial banks. While the potential benefits are substantial, the transition to a capital market also presents a range of challenges that must be addressed. This section examines the key hurdles that Ethiopian banks are likely to face, drawing on insights from the literature review and our survey findings. By understanding these challenges, banks can develop proactive strategies to mitigate their impact and ensure a seamless transition to a more integrated financial system. Specifically, we will explore the challenges related to competition, risk management, regulatory frameworks, and bank preparedness, highlighting the need for a comprehensive approach to achieve successful capital market implementation

##### *The Intensified Landscape of Competition*

The entry of new players and financial instruments in the capital market is likely to intensify competition for Ethiopian commercial banks. This aligns with the concerns raised by Demirgüç-Kunt and Levine (2009) regarding increased competition in a market with established players. Investment banks, brokerage firms, and other financial institutions might compete with banks for deposits, investment opportunities, and fee-based services (Demirgüç-Kunt & Levine, 2009).

##### *Navigating the Evolving Risk Landscape*

The introduction of a capital market in Ethiopia is expected to introduce new and complex financial instruments, potentially altering the risk profile for the country's commercial banks. As Levine (2002) notes, while the capital market can facilitate risk management tools, effectively utilizing them requires expertise and robust risk management frameworks. This new landscape presents several challenges, including:

- **Managing Market Risk:** Banks will need to navigate fluctuations in stock prices and interest rates, which can impact their capital market activities (Levine, 2002).
- **Credit Risk in New Markets:** As banks explore new lending opportunities within the capital market, they will need to develop strategies to accurately assess credit risk in these areas (Beck & Levine, 2004).

- **Operational Risk:** The increased complexity of capital market transactions may also introduce operational risks, such as settlement and clearing risks, which banks must mitigate (Pinto, Couto, & Figueiredo, 2019).

### *The Regulatory Balancing Act*

A well-developed regulatory framework is essential for promoting a stable and efficient capital market in Ethiopia. As Claessens and Djankov (2003) note, while regulations are necessary to mitigate risks, overly stringent rules can stifle market growth and discourage bank participation. The regulatory framework must navigate several challenges, including:

- **Balancing Market Growth with Risk Management:** Regulators must strike a balance between fostering innovation and ensuring adequate safeguards against financial risks, such as those related to market, credit, and operational risks (Claessens & Djankov, 2003; Pinto, Couto, & Figueiredo, 2019).
- **Adapting Existing Regulations:** Existing regulations may need to be reviewed and adapted to accommodate the specific needs and complexities of the capital market, including the need for robust settlement systems, improved post-trade information transparency, and streamlined clearance and settlement processes (Huang, Liu, & Pan, 2021).
- **Promoting Market Transparency and Integrity:** Regulators must also ensure that the regulatory framework promotes market transparency, fair disclosure practices, and investor protection, which are critical for maintaining market integrity (Beck, Chen, & Lin, 2020).

### *Ensuring Bank Preparedness: Knowledge, Technology, and Human Capital*

Beyond regulatory hurdles, the preparedness of Ethiopian commercial banks themselves is crucial for a successful capital market introduction. To participate effectively in the capital market, banks must possess the necessary knowledge, technology, and human capital. Key areas for consideration include:

- **Employee Knowledge and Awareness:** Banks must ensure that their employees have a thorough understanding of capital market instruments and practices, as a lack of awareness can hinder their ability to adapt and thrive (Billett, 2000; Easterby-Smith et al., 2000).
- **Technological Infrastructure:** Banks must invest in adequate technological infrastructure to facilitate efficient participation in the capital market, including high-capacity trading

systems and efficient order matching algorithms (Demirgüç-Kunt & Levine, 2009; Wang, Chen, & Liu, 2021).

- Human Capital: Banks must also possess the necessary human capital, including skilled professionals with expertise in areas such as risk management, to navigate the complexities of the capital market (Pinto, Couto, & Figueiredo, 2019).

The introduction of a capital market in Ethiopia presents a range of opportunities for the country's commercial banks, but it also comes with potential challenges. To fully leverage these opportunities, banks must be prepared to address these challenges and adapt their existing resources to navigate the complexities of the capital market. The key challenges that banks must overcome include:

#### 1. Technology and knowledge gap:

The capital market relies heavily on sophisticated technology for efficient trading, risk management, and information dissemination (Demirgüç-Kunt & Levine, 2009). Ethiopian commercial banks can face challenges due to a technology gap. This includes:

- Limited access to advanced technological systems: These systems are crucial for handling the high volume and complexity of transactions in a capital market (Demirgüç-Kunt & Levine, 2009). And this is more true as the systems and devices used are all imported and subscribed.

In addition to technology, a lack of human capital with the necessary knowledge and expertise can also hinder bank preparedness (Billett, 2000). This includes:

- Skilled professionals in capital market instruments: Employees need training in areas like risk management, financial product valuation, and capital market regulations (Billett, 2000). Training staff should be the number one strategy to challenge the challenges.

#### 2. Navigating the Evolving Risk Landscape:

The introduction of a capital market in Ethiopia presents a new and complex risk landscape, posing significant challenges for commercial banks in terms of risk management. As highlighted by Levine (2002), the capital market introduces a range of new and complex financial instruments,

which can alter the risk profile of banks. This is consistent with the literature, which suggests that the capital market can facilitate risk management tools, but requires expertise and robust risk management frameworks to effectively utilize them (Levine, 2002). Specifically, Ethiopian commercial banks may face challenges in navigating this evolving risk landscape, including:

- Limited experience in new risk assessment methodologies: Banks may need to develop expertise in evaluating new securities specific to the capital market, such as derivatives and other complex financial instruments (Levine, 2002).
- Competition from experienced players: The presence of experienced players from developed markets, such as the Nigerian Stock Exchange, which has acquired a stake in the Ethiopian capital market, can exacerbate this challenge. These players may have a competitive advantage due to their existing familiarity with the products and risk management practices, which can make it difficult for Ethiopian banks to compete (Demirgüç-Kunt & Levine, 2009).

### 3. Reputation Management in the Capital Market:

In the capital market, a bank's reputation is a critical asset that can significantly impact its performance and access to capital. As the literature suggests, reputation management is becoming increasingly important in the banking industry, with a growing emphasis on marketing and quality control (e.g., Berger et al., 2019). To maintain a strong reputation in the capital market, Ethiopian commercial banks must prioritize:

- Maintaining a positive public image: In today's digital age, negative social media reviews or public perception of poor service quality can spread quickly, eroding investor confidence and affecting a bank's ability to access capital. Banks must proactively manage their online presence and respond promptly to customer concerns to mitigate reputational risks.

### 4. Operational Challenges for Banks in the Capital Market

Once the capital market becomes operational, banks may face new challenges. Specifically, the credit facility may be impacted as other securities offered by the capital market create competition for larger corporations or qualified companies that can issue securities in the market. Two key risks that banks may face are:

- Risk of new securities: The introduction of new securities in the capital market may pose risks to banks, as mentioned earlier.
- Cost of capital variation: The capital market may also impact the cost of capital for banks, which can affect their operations and profitability.

These challenges highlight the need for banks to adapt and innovate in response to the changing market landscape.

The introduction of a capital market in Ethiopia presents several challenges for commercial banks. Key among these are the technology and knowledge gaps that banks must address to navigate the complexities of the capital market. Additionally, banks must navigate the evolving risk landscape, including limited experience in new risk assessment methodologies and competition from experienced players. Furthermore, reputation management becomes critical in the capital market, where a bank's reputation can significantly influence its performance. Finally, operational challenges arise, including the risk of new securities and cost of capital variation, which can affect banks' profitability and competitiveness.

#### 4.2.4. Prospects of the Capital Market and Commercial Banks

The introduction of a capital market in Ethiopia is expected to have a transformative impact on the country's financial sector and economy. As argued by Demirgüç-Kunt and Levine (2009), a well-functioning capital market can play a crucial role in promoting economic growth and development by providing firms with access to long-term financing and enabling them to invest in productive activities. In the context of Ethiopia, the capital market is expected to provide a new avenue for commercial banks to access capital, diversify their investments, and manage risk more effectively (World Bank, 2019). As the capital market develops, it is likely to create new opportunities for innovation, job creation, and economic development, ultimately contributing to the country's goal of becoming a middle-income economy by 2025 (Ethiopian Government, 2015)

*Future growth potential:* The capital market is expected to have a positive impact on the growth and development of commercial banks in Ethiopia. According to the World Bank (2019), a well-functioning capital market can provide banks with access to long-term financing, enabling them to invest in productive activities and support economic growth. Furthermore, the capital market can create opportunities for innovation and entrepreneurship in the banking sector, driving competition and improving the quality of financial services (Beck et al., 2012). As the capital

market develops, it is likely to attract new investors and stimulate economic activity, ultimately contributing to Ethiopia's goal of becoming a middle-income economy by 2025 (Ethiopian Government, 2015).

*Opportunities for innovation:* The capital market is also expected to create opportunities for innovation in the financial sector in Ethiopia. With the introduction of new financial instruments and products, commercial banks will be able to develop new business models and revenue streams, driving innovation and entrepreneurship in the sector (Beck et al., 2012). Furthermore, the capital market is likely to attract fintech companies and other financial technology innovators, who can leverage the market to develop new digital payment systems, mobile banking platforms, and other innovative financial solutions (World Bank, 2019). As the capital market grows, it is likely to create a vibrant ecosystem of innovation and entrepreneurship, driving growth and development in the financial sector and beyond.

*Job creation and economic development:* The capital market is also expected to create new opportunities for job creation and economic development in Ethiopia. According to the African Development Bank (2019), the development of the capital market can lead to the creation of new jobs and industries, particularly in the areas of financial services and technology. Furthermore, the capital market can provide financing for infrastructure projects and small and medium-sized enterprises (SMEs), which are critical for economic growth and development (World Bank, 2019). As the capital market grows, it is likely to have a positive impact on poverty reduction and economic inequality, ultimately contributing to Ethiopia's goal of achieving sustainable development (United Nations, 2015).

*Increased financial inclusion:* Finally, the capital market is expected to increase financial inclusion and access to financial services for underserved populations in Ethiopia. According to the World Bank (2019), the capital market can provide financing for micro, small, and medium-sized enterprises, which are critical for promoting financial inclusion and reducing poverty. As the capital market develops, it is likely to increase access to financial services for rural and marginalized communities, ultimately contributing to Ethiopia's goal of achieving financial inclusion for all (Ethiopian Government, 2015).

In conclusion, the introduction of a capital market in Ethiopia presents a significant opportunity for the country's commercial banks to access new sources of funding, diversify their investments, and manage risk more effectively. As the capital market develops, it is likely to have a transformative impact on the country's financial sector and economy, driving innovation, job creation, and economic growth. Furthermore, the capital market is expected to increase financial inclusion and access to financial services for underserved populations, ultimately contributing to Ethiopia's goal of achieving sustainable development. As the country continues to navigate the complexities of the capital market, it is essential for policymakers, regulators, and financial institutions to work together to create a conducive environment that supports the growth and development of the capital market. By doing so, Ethiopia can unlock the full potential of its capital market and achieve its goal of becoming a middle-income economy by 2025.

## CHAPTER FIVE

### 5. Findings, Conclusion and Recommendation

This chapter concludes the exploration of the potential implications of capital market on Ethiopian commercial banks. By drawing upon the findings from the literature review, survey data analysis, this chapter synthesizes the key takeaways regarding the current state of readiness of the banks, and its potential alignment or discrepancies with capital market requirements, and the anticipated impact on the financial performance of Ethiopian commercial banks. Furthermore, this chapter presents a set of recommendations designed to assist policymakers, regulators, and commercial banks in navigating the transition towards a capital market and maximizing the potential benefits for all stakeholders.

#### 5.1. Summary of Findings

The combined insights from the data analysis and literature review have yielded valuable findings regarding the potential impact of the Ethiopian capital market on commercial banks. These findings can be categorized into two key aspects: anticipated benefits and potential challenges.

The major potential benefits for commercial banks being:

- Capital market introduction is expected to drive improvements in risk management capabilities for banks, as participation necessitates stricter compliance and qualification standards.
- The capital market's introduction is expected to provide Ethiopian commercial banks with access to long-term financing and a wider range of funding sources. This shift will move banks beyond conventional banking practices and allow them to participate in the issuance and trading of various securities.
- Capital market implementation has the potential to streamline operations and foster innovation within Ethiopian commercial banks. This can lead to improved service quality and a more efficient allocation of resources.
- The capital market presents an opportunity for Ethiopian commercial banks to evolve into more comprehensive financial institutions. By integrating new services

into their product lines, banks can become more profitable and competitive in this dynamic financial landscape.

The major potential Challenges for commercial banks being:

- The capital market's emphasis on a highly skilled workforce and technologically advanced systems may expose a significant skills gap and existing technological shortcomings within Ethiopian commercial banks.
- The evolving risk landscape of the capital market, with the introduction of new and complex financial instruments, will pose a significant challenge for Ethiopian commercial banks. Banks will need to develop robust risk assessment methodologies to effectively measure and manage the risks associated with these instruments.
- The ever-present flow of information within the capital market necessitates a heightened focus on reputation management for Ethiopian commercial banks. Swift and transparent responses to any mistakes are crucial to mitigate reputational damage that can quickly amplify in this environment.

## 5.2. Conclusion

A well-functioning capital market is a cornerstone of a healthy financial system in any country. While Ethiopia's market formation is recent, it is expected to fundamentally reshape the nation's financial landscape. This technologically integrated and data-driven market will necessitate a new approach to financial operations and business thinking within the Ethiopian context. This thesis explored the potential implications of capital market introduction for Ethiopian commercial banks. The findings reveal that while capital market participation offers significant benefits such as improved access to financing and enhanced risk management practices, there are also challenges that banks need to address, including technological shortcomings and a potential skills gap.

As major players in the Ethiopian financial market, commercial banks stand to gain significant opportunities from the introduction of a capital market. However, this implementation also presents challenges that banks will need to overcome. This study's findings highlight a range of potential benefits and challenges for Ethiopian commercial banks as they navigate the introduction of the capital market.

### 5.3. Recommendation

The relation between commercial banks and the capital market can be complementary and mutually beneficial. While commercial banks traditionally serve as a major source of finance, the introduction of a capital market presents additional opportunities for banks and the overall financial system. Banks can benefit from the capital market by diversifying their funding sources and reducing their reliance on traditional deposit-based financing (Demirgüç-Kunt & Levine, 1996).

To fully capitalize on the opportunities presented by the capital market, Ethiopian commercial banks must demonstrate a swift and proactive approach to adaptation. Learning from the experiences of other nations that have integrated capital markets will be invaluable in navigating the upcoming changes. These recommendations directly address the challenges identified in this study. By investing in employee training and technological infrastructure upgrades, banks can bridge the skills gap and ensure they are well-equipped to navigate the complexities of the capital market. These changes may include:

- Developing a Competitive Advantage: Banks can identify their unique strengths and develop a niche market focus to differentiate themselves
- Investing in Risk Management Expertise: Banks need to invest in training and hiring professionals skilled in managing the risks associated with the capital market
- Developing Robust Risk Management Systems: Implementing robust risk management frameworks and stress testing capabilities can help banks navigate the new risk landscape
- Investing in Employee Training: Providing comprehensive training programs on capital market instruments, risk management, and best practices can equip employees with the necessary knowledge
- Upgrading Technological Infrastructure: Investing in modern technology is crucial for efficient trading, risk management, and information dissemination within the capital market

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## Appendix



### Questionnaire

#### Thesis Title

#### **Potential Implications of upcoming capital market on Ethiopian Commercial Banks**

Introduction:

.My name is Melktu Geremew and I am currently doing my MSC in Accounting and Finance at Addis Ababa University.

The purpose of this study is to gather insights on the perceptions and expectations of Ethiopian commercial banks regarding the introduction of the capital market with the banking sector; and assess the possible benefits and challenges that are ahead after the introduction of the capital market. Your responses will help inform to suggest a better roadmap to the successful coherence of the two sectors. Please answer the questions truthfully and to the best of your ability. All responses will remain confidential and anonymous.

**Thank you in advance for taking the time to complete this survey. Your input is valuable to me. If you have any additional comments or suggestions, please feel free to contact me.**

## **Section 1: Demographic Information**

### ***1.1. Gender:***

Male

Female

### ***1.2. Age:***

25-34

45-54

35-44

55-64

Above 65

### ***1.3. Education Level:***

Bachelor's Degree

Ph.D.

Master's Degree

Other

### ***1.4. Job Experience:***

0 – 3 years

6 – 10 Years

3 – 6 Years

above 10 Years

**Section 2: Perceptions of the Current State of the Ethiopian Banking Sector and Its Readiness for a Capital Market**

2.1 How would you rate the current state of the bank you work at?	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
A, The bank is modifying to adapt to the changes that may occur in the Ethiopian financial environment because of the introduction of the capital market.					
B, The bank is changing to respond to the changes and expectations that the capital market will bring to share/stock management.					
C, The bank has been Creating awareness to the employees of the upcoming capital market formation					
D, The banks' technological capability to embrace the fast-paced market structure that would emerge once the capital market opens is high.					

**Section 3: Expectations Regarding the Potential Benefits and Challenges of a Capital Market in Ethiopia**

3.1 What benefits and problems will banks face once the capital market begins to operate?	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
A, The traditional banking practice of collecting deposits (as savings or fixed deposits) would decline due of the capital market entry.					
B, Customers will consider the options presented by the capital market and opt to participate in other ventures rather than making bank deposits.					
C, Companies (depending on the structure and demands of the capital market) will aim to raise cash through the capital market rather than going to banks for loans.					

<p>D, Banks with some real work expertise in share sales and management will be the first to reap the rewards of being a front-runner in the capital market.</p>					
<p>E, Employees may gravitate towards the capital market in order to become players in many aspects, which may harm the bank by causing it to lose experienced work force</p>					
<p>F, Banks will tap into a larger range of financial sources, money that are accessible through the capital market.</p>					
<p>G, the capital market will enable banks to improve their risk management skills.</p>					
<p>H, Inadequate rules may challenge banks to practice in the capital markets in diverse positions to access their potential.</p>					
<p>I, Resistance from shareholders and customers may impede the process's smoothness of involving in the market.</p>					

**Section 4: Evaluating for Share management/ Investors relation practices**

4.1 In what state is the share management system of your bank	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
A, Our bank has a functional share management system (a software) that can handle the present task swiftly and effectively.					
B, Our bank's share management system is designed or changed (completed or in process) with the capital market in mind.					
C, The share management system is adaptable to the demand that will be generated by the capital market.					
D, The existing share recording method is sufficient to manage the upcoming capital market demand.					
E, The present share transfer or sales recording method is sufficient to meet the capital market's expected demand.					
F, The existing dividend computation procedure is sufficient to meet the capital market's expected demand.					

<p>G. The Ethiopian Capital Market Authority's rules and regulations are effectively disseminated, and you {as a banker} is aware of the road plan for the capital market's operation.</p>					
<p>H. Overall, the investor relations/share management working order will be computable to the demand predicted from the impending capital market (understanding capital markets from other countries' experiences).</p>					

**THANK YOU**