ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

CHALLENGES AND PROSPECTS OF ESTABLISHMENT OF STOCK EXCHANGE MARKET IN ETHIOPIA

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DECLARATION BY CANDIDATE

I, the undersigned, hereby declare that this thesis entitled "**challenges and prospects towards the establishment of stock exchange market in Ethiopia**" is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been acknowledged.

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BY

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APPROVED BY BOARD OF EXAMINERS

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ACRONYMS AND ABBREVIATION

AACCSA	Addis Ababa Chamber of Commerce Sectorial Association
AASDG	Addis Ababa Share Dealing Group
CIA	Central Intelligence Agency
CPI	Consumer Price Index
EPRDF	Ethiopian People Revolutionary Democratic Front
ESDG	Ethiopian Share Dealing Group
EU	European Union
EY	Ernst & Young
FDI	Foreign Direct Investment
FSCBP	The Financial Sector Capacity Building Project
FY	Fiscal Year
GDP	Gross Domestic Product
GOE	Government of Ethiopia
ICT	Information and Communication Technology
IDT	Innovation Diffusion Theory
IPO'S	Initial Public Offerings
ISO	International Organization for Standardization
NBE	National Bank of Ethiopia
OTC	Over the Counter
PEOU	Perceived Ease of Use
PSD	Private Sector Development
PU	Perceived Usefulness
SDG	Sustainable Development Goal
SE	Stock Exchange
SSE	Sustainable Stock Exchange
TAF	Technology Acceptance Framework
TAM	Technology Acceptance Model
TRA	Theory of Reasoned Action
UN	United Nations
UNCTAD	The United Nation Conference on Trade and Development
WB	World Bank

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ABSTRACT

The main objective of stock exchange market is to Organize and regulate financial market where securities are bought and sold at prices governed by the forces of demand and supply. However, it is not established in Ethiopia while establishment brings opportunities and also poses challenges to the establisher. This study examined challenges and prospects towards the establishment of stock exchange market in Ethiopia and described the effects by considering institutional infrastructures frameworks, public awareness and trust in share investment, technological infrastructures and macro-economic levels as independent variables. Both primary and secondary sources of data were used for the study. To attain its objective, the research was conducted on share companies incorporated in Ethiopia, government officials and the share dealers of these share companies. Thus, 90 share companies were selected as a sample from share company managers while 5 government officials and 5 share company dealers were selected purposively using non-probability purposive sampling method making the total sample size 100 for this study. The result revealed that legal and regulatory framework, insufficient technological infrastructure, and low level of public awareness as a challenge of establish stock market in Ethiopia. Also, the prospects include the economic growth of the country, the agenda of poverty reduction, privatization effort and unexploited resources. Thus, the researcher recommends the government to take real pragmatic measures to establish stock market and further reforming in the legal, institutional and technological requirements that are necessary.

Keyword: stock exchange, Ethiopian stock market, capital market and financial market

CHAPTER ONE: Introduction

1.1 Background of the study

The financial market is a market where financial instruments are exchanged. Financial markets provide the following three major economic functions: Price discovery, Liquidity and Reduced transaction costs. Price discovery means that the interactions of buyers and sellers in a financial market determine the price of the traded asset. Second, financial markets provide a forum for investors to sell a financial instrument and is said to offer investors “liquidity”. The third economic function of a financial market is that it reduces the cost of transacting when parties want to trade a financial instrument (Fabozzi & Drake, 2009).

According to business dictionary definition, the stock exchange market refers to Organized and regulated financial market where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply. Stock exchanges basically serve as (1) primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channeling savings of the investors into productive ventures; and (2) secondary markets where investors can sell their securities to other investors for cash, thus reducing the risk of investment and maintaining liquidity in the system. Stock exchanges impose stringent rules, listing requirements, and statutory requirements that are binding on all listed and trading parties (BusinessDictionary, 2019).

In Ethiopia, A short-lived stock market started informally in the late 1950s and was formally instituted in 1965. The stock market was administered by the National Bank of Ethiopia NBE (the equivalent of the Federal Reserve Board in the United States). The government through the National Bank tried to improve resource mobilization by establishing a share-dealing group that brought together buyers and sellers to participate in an auction process. It was a good start, and no crisis of public confidence had occurred. Market capitalization, however, remained small and did not have much impact on the economy since the participation of the general public was limited (Tessema, 2003).

Since the abolition of the Addis Ababa Share Dealing Group (AASDG) in 1974 by the military government ruling Ethiopia at the time, no stock market has been in place in Ethiopia. The need for stock exchange market development has, however, been continually discussed by various groups/stakeholders and academics. Accordingly, various studies have been carried out by these groups to initiate the establishment of capital market in the country (Ruecker, 2011).

As Ruecker, (2011) study shows, in 1995, the National Bank of Ethiopia reportedly undertook a study on the “Feasibility of Establishing of Securities Exchange Market in Ethiopia” and also prepared a draft securities and exchange proclamation. Later, in 1997/98 [2003], an analysis on the prospects and challenges of developing a securities market was made by Professor Asrat Tessema and the analysis focused on the need for capital market development in developing countries like Ethiopia where there is acute shortage of capital which is a major constraint for rapid economic development. The analysis concluded by recommending the establishment of a capital market in Ethiopia sooner rather than later, citing some African countries that started the scheme and are successful in their economic development.

A seminar on capital market development was held at Mekelle University under the topic *“Towards Promoting Capital Market in Ethiopia: Opportunities and Challenges”* in 2000. The objective of the seminar was to discuss the benefits and the possibility of initiating an Ethiopian capital market. It attracted a number of business people, academics and other stakeholders. Most of the eleven papers presented at the seminar strongly emphasized the necessity and importance of having a capital market from the practical aspect of an alternative source of finance for private sector initiated economic development and other benefits to the national economy. Nevertheless, there were also papers which advised caution and outlined the high costs and potential risks in capital market development and called for a study that clearly establishes the case and its viability (Ruecker, 2011).

Ruecker, (2011) furthermore elaborates, in that same year a group of entrepreneurs organized as the Ethiopian Share Dealing Group (ESDG) under the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) initiated a share dealing group similar to the former Addis Ababa Share Dealing Group of 1974. The group initiated the development of a Stock Exchange (SE) rules and regulations as well as bylaws of a share dealing group, and commissioned Ernst & Young (EY) to develop an international standard rules and regulations manual. The manual developed consisted of two volumes: (1) Membership requirements, (2) Listing Rules, (3) Requirements for Insurers in Volume I; and (4) Listing of shares, (5) Listing of Bonds, (6) Trading Rules, (7) Rules for clearing and Settlement of Stock Exchange Transactions in Volume II. Though these were serious attempts in re-launching share dealing in Ethiopia, [but] they bore no fruit due to lack of endorsement or support for the initiative from the GoE. As recently as 2008, the NBE launched a capital market infrastructural development study by international consultants under the Financial Sector Capacity Building Project. The study included capital market infrastructure development in Ethiopia. This initiative was financed by the World Bank (WB) based on the potential interest of the GoE. According to the WB Ethiopia Office and the Project Unit at NBE, the study is under review by the concerned GoE body. The World Bank sponsored analysis of capital market infrastructure development in the overall Financial Sector Capacity Building Project (FSCBP) in that year and these studies are completely independent and were not disclosed to the respective teams.

"Finally, the Ethiopian government is poised to set up the country's first stock market by 2020" (The Reporter, 2018). This was the first line in '*the Reporter'* magazine published on December 22, 2018. Despite Ethiopia being one of the fastest growing economies in Africa, the country still doesn't have a stock market. According to a one-page template issued by the Office of the Prime Minister recently indicated that the government was planning to establish a capital market by 2020. The paper cited poor financial infrastructure, limited financing and poor financial inclusiveness as the major impediments in the finance sector. The government plans to develop a road-map for introducing a trade financing instruments including capital market. Increasing loans to the private sector by 20 percent annually and ensure its fair disbursement and expanding credit registry to micro finance institutions are the key areas that will be addressed in 2019, according to the document. The targets set to be accomplished by 2020 are enhancing the use of modern financial technology, establish a system enabling e-commerce and digital financing and introduce capital market (The Reporter, 2018).

1.2 Statement of the problem

Many African countries, including Ethiopia, are in the process of overhauling their economic and political systems and may be opening up the last untapped market in the world (Tessema, 2003). A growing economy like Ethiopia needs investment on a continuous basis for new ventures as well as for expansion and modernization of existing productive capacity. Therefore, to sustain the annual GDP growth, the country needs new investments, in other words, it needs capital to invest [and a financial market to operate]. Capital markets provide one means to raise capital, as capital markets mobilize savings for investment (Kabtyemer, 2015).

Different studies conducted by different researcher like Paul, (2004), John & Benjamin, (2006), Suarez (n.d) and Popov, (2017), on capital market and financial sector development in Sub-Saharan Africa, capital markets in developing countries, towards strong and stable capital markets in emerging economies and evidence on finance and economic growth respectively to their authors, noted some major points as an important facilitator for economic growth. This are capital market development and financial market development. In doing so one can acquire the benefits like economic growth, macro-economic stability, private sector development, mobilized local savings and resource allocation, enhanced bank competition, improved corporate governance, adequate regulatory and supervisory framework, high institutional qualities, managed financial risks and sound banking system.

According to official statistics from The world bank, (2018), Ethiopia's annual rate of economic growth, which averaged 10.3 percent over 2005/06–2015/16 (compared with the regional average of 5.4 percent), slowed to 8 percent in FY2016 due to drought-related lower agricultural production. Total goods and services exports do not exceed 10 percent of GDP, significantly below the 24 percent expected from a country the size of Ethiopia at its level of development. This export underperformance is mainly due to structural and competitiveness issues, including an overvalued exchange rate. Key challenges relate to poor export performance (Ethiopia's growth has been driven by investment followed by private consumption) and weak trade balance, which reflect the lack of external competitiveness and the vulnerability to terms-of-trade shocks. The rising risk of external debt distress may affect Ethiopia's access to external finance. These developments require continued policy adjustment to crowd-in the private sector and strengthen Ethiopia's competitiveness. A larger and stronger private sector would seem to be the main response to strengthen Ethiopia's trade competitiveness and resilience to shocks.

Manufacturing represented less than 8% of total exports in 2016, but manufacturing exports should increase in future years due to a growing international presence. The banking, insurance, telecommunications, and micro-credit industries are restricted to domestic investors, but Ethiopia has attracted roughly $8.5 billion in foreign direct investment (FDI), mostly from China, Turkey, India and the EU; US FDI is $567 million. Investment has been primarily in infrastructure, construction, agriculture/horticulture, agricultural processing, textiles, leather and leather products (CIA, 2019).

From the above statistical data, we can understand that the economy of Ethiopia is growing immensely that the private sector needs to be its fuel to feed this substantial capital hunger promptly. In doing so it is a must to have a structured capital market as well as a financial market explicitly the stock exchange market to raise, regulate and facilitate the flow of capitals. An important question arising from this development is why Ethiopia doesn't have a stock exchange market yet.

While different scholars and organizations like Ruecker (2011), Tessema (2003), NBE, ESDG, Mekelle University, Kabtyemer (2015), belgu (2018), Teklay (2011), Teklehaimanot (2014) and Yimer (2011) have conducted studies internationally as well as internally (some have been mentioned in above section) in the past few years regarding the consideration and readiness of Ethiopia in establishment of stock exchange market.

Among them not mentioned in above heading Kabtyemer (2015), belgu (2018), Teklay (2011), Teklehaimanot (2014) and Yimer (2011) studied on the title of "Is Ethiopia ready to institute a stock exchange market?", "should Ethiopia consider establishing stock market?", "should Ethiopia consider establishing of a stock exchange?", "Is Ethiopia ready to commence capital market?", "Analysis of potential beddings, constraints and the dubious"; and "Financial market development, policy and regulation: the international experience and Ethiopia's need for further reform", respectively with the above-mentioned authors findings imply same and almost have the same methodological approach.

Their findings imply that government's reluctance, underdeveloped legal, regulatory and physical infrastructure framework, immature financial sector, low macro-economic conditions, uninformed and small-base domestic investors, lack of transparency and non-existence of skillful and institutionalized market makers are delaying factors for its development and establishment of stock exchange market in Ethiopia. Commencing this, other major elements like: the country's fast economic growth, expansion of energy, initiators and public inclination to incorporated companies, increasing number of share companies and shareholders, invest than save push and increase of capital flow to the country and high demand of loan are seminally backing capital market development and recommends the establishment of stock exchange market as it is significant to mobilize domestic savings and huge capital to close financial gap of financing huge national projects, enhance access to equity finance of the private sector and promoting rapid economic development.

Ethiopia has seen growth in the number of share companies under formation through initial public offerings. Although some share companies have managed to mobilize huge amounts of capital from the public, there were disappointments as some of the promoters have failed to meet their promises. With the current Ethiopian condition, selling shares of companies will take long time and effort, even though the seller is in dire need of cash. And when dealers take part in the deal, it is usually observed in some manipulation in the value of the share in the process. On the other hand, individual investors are unable to invest in feasible ventures as it is often difficult to get readily available markets from which they could go and buy. So, they may prefer to keep their money in their homes or save in accounts of banks for a nominal interest rate in consideration of the inflation rate prevalent in the country (Kabtyemer, 2015).

Recently there are studies conducted by Mekelle-University, (2000), Tessema (2003), Wale (2012), Mulatu (2016), gashu (2017), Gizachew (2019) and Ayele (n.d); that focus on the challenges and prospects of establishing stock market in Ethiopia. Among not mention in above heading, (Mulatu, 2016) study aimed at identify factors that affect the development of stock market such as macroeconomic development, government reaction towards stock market investment, financial sectors development. His findings depict that an authorized institution and legal infrastructure is not in placed yet to operate stock market thus far. Given these findings, he concluded that establishing stock market under the current situations of development of key institutional and legal infrastructures is unlikely in Ethiopia.

Gizachew, (2019) study was attempted to assess the comprehensive prospect and challenges of stock market establishment in Ethiopia by focusing on the role of accounting and auditing institution. the findings depict: Ethiopia’s economy has many favorable conditions (opportunities) that can pave the way for stock market development. This includes favorable macroeconomic and social conditions, increased interest of foreign investors, the growth and transformation Plan (GTP), financial sector development, increased private sector participation and high enthusiasm among stakeholders. While the launch of stock market is not without challenges, some of the major challenges it mentioned include: inadequate institutional and legal frame work, Low Quality and Quantity of Financial Services, scarcity in Communication Network, Policy Measures Impetus, Gaps in Accounting, Auditing and Legal Infrastructure, Low level of saving and financial literacy, Inadequacies in skilled manpower, and Forms of Business Organizations.

Despite this, the next study areas considered as per the researcher are: what are the challenges and prospects towards the establishment of stock exchange market in Ethiopia and describing the effect by considering institutional infrastructures frameworks, public awareness and trust in share investment, technological infrastructures and macro-economic levels. In detail of the above independent variables, the degree to which the legal infrastructures and requirements, governmental infrastructures and initiations, the need for regulation on stock exchanges, public awareness and trust, technological infrastructures and development, private sector development, capital by companies and initiation, economic growth and financial sector development are factors that determine towards the establishment of stock exchange market in Ethiopia that should be studied deeply. Other institutional and economic factors which determine the establishment of stock exchanges in Ethiopia are also absent or are inappropriately organized.

As per the researcher's knowledge, there hasn't been any research conducted in Ethiopia regarding challenges and prospects towards the establishment of stock exchange market in Ethiopia by studying the listed independent variables and describing their effect on the establishment of stock exchange market in Ethiopia as dependent variable. By doing so, the researcher filled the knowledge gap by going further step in the conceptual understanding regarding the establishment of stock exchange in Ethiopia and also used different methodological approach from previous researcher by using the above listed independent and dependent variables.

Because of the novelty of the concept of stock exchange market in Ethiopia, development in initiation by the government to establish capital market from before and increase in number of share companies and capital, the study topic and area made it attractive to conduct the research on the above-mentioned variables. The purpose of this study was to examine the challenges and prospects towards the establishment of stock exchange market in Ethiopia by using it as dependent variable and describing the effect by considering institutional infrastructures frameworks, public awareness and trust in share investment, technological infrastructures and macro-economic levels as independent variables through assessing different theoretical and empirical studies of different scholars, academicians, experiences of other African countries on their stock exchange market establishment and describing the challenges and prospects that will be faced and gained while the establishment of Ethiopia's stock exchange market soon.

1.3 Research questions

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

1. What are the prerequisites for establishing stock exchange market in Ethiopia?
2. What are the benefits in the establishment of stock exchange market in Ethiopia?
3. What are the institutional infrastructures required to establish stock exchange market in Ethiopia?
4. What are the technological infrastructures required to establish stock exchange market in Ethiopia?
5. What is the level of public awareness and trust required to establish stock exchange market in Ethiopia?
6. What is the level of macro-economic stability in Ethiopia?

1.4 Objective of the study

1.4.1 General objective

The general objective of the study is to examine the challenges and prospects towards the establishment of stock exchange market in Ethiopia particularly with the following specific objectives.

1.4.2 Specific objective

The specific objectives of the study are:

1. To examine the prerequisites for establishing stock exchange market in Ethiopia.
2. To examine the benefits in the establishment of stock exchange market in Ethiopia.
3. To examine the institutional infrastructures required for the establishment of stock exchange market in Ethiopia.

4. To examine the technological infrastructures required for the establishment of stock exchange market in Ethiopia.
5. To examine if public awareness and trust is required in establishment of stock exchange market in Ethiopia.
6. To examine the level of macro-economic stability in Ethiopia.

1.5 Significance of the study

This study was an effort to examine deeply and identify the challenges and prospects towards the establishment of stock exchange market in Ethiopia. The study will have many advantages for all practitioners and academicians by providing useful information about the challenges and prospects of establishing stock exchange market in Ethiopia in particular with institutional infrastructures frameworks, public awareness and trust in share investment, technological infrastructures and macro-economic levels as its understudies.

This study will be significant to three parties whom are *academicians*, *government authorities and the general public*. Advantage *to academicians*- to take further studies and can also be in use as an addition to the pre-existing literature on stock exchange establishment in Ethiopia and also for conducting detailed and comprehensive study regarding the subject matter; *to government authorities*- in pushing forward in the establishment of stock exchange market, regulatory and related institutions, will also be helpful in the efforts of policy makers issuing policies, rules and regulation that aid in facilitating the establishments of the institutions; and *to the general public*- as a tool in awareness creation and public confidence creation in share investment. It also will give insight to the current economical, legal, infrastructural development positions of the country that relates in the establishment of the stock exchange market.

1.6 Scope of the study

The general objective of the study was to examine the challenges and prospects towards the establishment of stock exchange market in Ethiopia. Due to the novelty of the concept in Ethiopia and also to achieve the objectives of this paper, the study was delimited to examine topics related with challenges and prospects in establishment of stock exchange market. Despite this, it also covered the prerequisites in establishment of stock exchange market.

Pertaining to the study location, the study was delimited in Addis Ababa. In regards to the study population, out of *2499 share companies incorporated across Ethiopia among them 979 companies are based in Addis Ababa, Ethiopia*. From this the researcher used 2499 share companies as total population of study area and from this 979 share companies were selected as target population of study and sample was drawn from them. This is done in recognition to, all high capital share companies head offices were believed to resides in Addis Ababa as well as knowledge and expertise regarding the subject matter.

1.7 Organization of the study

The study was organized in to five chapters. The first chapter stated the general introduction of the study, statement of the problem, research question, objective of the study, scope of the study, significance of the study and organization of the paper. Chapter two presented literature review which encompasses theoretical and empirical reviews regarding the study area and third chapter outlined the research methodologies that was applied. The research results based on the analysis were presented in chapter four. The last chapter drew conclusion and recommendation based on the findings that was pursued.

CHAPTER TWO: Literature Review

Chapter two was structured along several themes. It reviewed both the theoretical and empirical evidences regarding stock exchange market. First of all, this chapter explained theoretical literature review section. Followed by the basic terminologies and definition of stock exchange market with and the background of cconceptual framework foundation of the study; stock exchange market development. Secondly, empirical literature review section was included where it provided insight into stock exchange market in Ethiopian context. Lastly, it examined the benefits and challenges of establishing a stock exchange market with examination of the prerequisites for the establishment of stock exchange market with the views of other authors and previous researches on stock exchange market.

2.1 Theoretical review

2.1.1 Basic terminology and definition of stock exchange market

Stock Market: is a market where the trading of company stock, both listed securities and unlisted takes place. It is different from stock exchange because it includes all the national stock exchanges of the country. *Stock Exchanges:* are an organized marketplace, either corporation or mutual organization, where members of the organization gather to trade company stocks or other securities. The members may act either as agents for their customers, or as principals for their own accounts. Stock exchanges also facilitates for the issue and redemption of securities and other financial instruments including the payment of income and dividends. The record keeping is central but trade is linked to such physical place because modern markets are computerized. The trade on an exchange is only by members and stock broker do have a seat on the exchange.

Fleckner & Hopt, (2013) in their study state, the terminology of '*bourses*' and '*exchanges*,' respectively, may be explained in different ways: The *linguistic roots* of the word '*bourse*' lead back to the first financial centers in medieval continental Europe. To understand the exchanges' underlying idea, one has to focus on their *functions* in society. A *legal definition* should distinguish exchanges that require state supervision from unregulated venues, but legislators so far have failed to accomplish this task.

Linguistically: there are two plausible explanations for the term *bourse* (French) or *Börse* (German), as exchanges are called in many languages: First, the expression could be a direct derivation from the Medieval Latin word *bursa*, a name for, among other things, purses or wallets (from Ancient Greek βύρσα: coat, skin). Second, the term could trace back to a merchant family of Bruges, whose name *van der Burse* in turn derives from the Latin word. Both explanations shed an interesting light on the exchanges' very beginning, and do not exclude each another (Fleckner & Hopt, 2013).

Functional meaning: states, Exchanges are marketplaces where traders buy and sell negotiable items with a high degree of standardization. This definition highlights two features: the negotiability of the items that are traded (such as shares, bonds, derivatives or most recently emission permits) and the standardization of the trading process with ongoing price fixing (only certain items are admitted to trading, interested parties need permission to trade, and all contracts are concluded under the same provisions) (Fleckner & Hopt, 2013).

Aside from offering standardized trading, exchanges also serve a number of other purposes: exchanges produce and disseminate market data, Exchanges regulate the marketplace that they establish, Exchanges set minimum standards for the companies whose shares or bonds are listed at the exchange and Exchange operators have evolved from not-for-profit entities into listed companies that seek to make money (Fleckner & Hopt, 2013).

From an overall economic point of view, exchanges promote one of the key features of large business enterprises: short-term investments in long-term projects. Large business enterprises are typically capital-intensive long-term projects that only capital associations such as stock corporations can finance. One of the preconditions to accomplish this goal is that those institutions preclude their shareholders from withdrawing the capital that they have contributed. It is crucial, then, that capital associations instead allow their members to sell their share to third parties, because few investors would be willing to provide capital if they could never recall it. Exchanges support this transformative function by establishing a marketplace where providers of capital and those seeking it can come together at low transaction costs. The more liquid the market is, the more attractive capital commitments become for both sides: investors may sell their shares or bonds at any time and thereby recover the current value of their investment in the short term; as a result, listed companies can exclude the redemption temporarily (for bonds) or indefinitely (for equity) and gain planning dependability for the long term (Fleckner & Hopt, 2013).

Legal term: No jurisdiction has so far been successful in finding a concise legal definition of the term's 'bourse' or 'exchange.' There is a wide spectrum of markets that organize trading in negotiable items, and apparently no criteria can adequately distinguish venues that require state supervision from those that do not. What constitutes an 'exchange' in legal terms is therefore not only the starting point but also one of the key problems of stock exchange law. The first commercial code, the French *Code de commerce* (1807), brought a few provisions on commercial exchanges (Art. 71-73: "des Bourses de commerce") but only a cursory definition (Art. 71). When, four decades later, the United States enacted its seminal Securities Exchange Act (1934), it included a definition (kept to this day) of the term 'exchange' that is, notwithstanding its lengthy character, still circular, because it refers to "the functions commonly performed by a stock exchange as that term is generally understood." The following decades brought spirited debates all over the world, but little progress in finding a definition because technological advancement had superseded and thereby rendered irrelevant all the physical criteria that were once put forward to distinguish exchanges from other markets (such as an exchange building or certain trading hours around noon). New impulses arose on the European level one decade ago (2004). The directive on markets in financial instruments (commonly referred to as MiFID) defines at its outset the term 'regulated market' as "a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments—in the system and in accordance with its nondiscretionary rules—in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorized and functions regularly and in accordance with the provisions of Title III."

Fleckner & Hopt, (2013) argue that the European definition properly describe the exchanges' key functions, the establishment and regulation of a market for negotiable items however, the definition only of limited practical use because they fail to separate the consequences of a market's official recognition as an exchange (especially legal capacity) with its prerequisites (such as the conclusion of contracts within the system). Put differently, the definitions fall short of identifying exchanges that require regulation from markets that need no governmental oversight. In light of this, all parties involved would be well advised to distinguish between a *formal exchange definition* (referring to marketplaces that are recognized by the competent authorities as exchanges) and a *material exchange definition* (venues that meet the requirements for being admitted as exchanges).

Fabozzi & Drake, (2009) defined, A stock exchange is an organized marketplace, li-censed by a relevant regulatory body, where ownership stakes (shares) in companies are listed and traded. Listing happens in the so-called 'primary market', where a portion of a company's shares are made available to the public. The company often uses the listing to raise funds through issuing new equity shares (an initial public offering or IPO). Investors can then buy and sell these listed shares in the so-called 'secondary market'. While listing in the primary market may result in a flow of funds from investors to the firm, the trading between investors in the secondary market does not.

2.1.2 The Conceptual framework foundation of the study

Innovation Diffusion Theory (IDT)

According to Rogers, (1995), innovation is defined "an idea, practice, or object that is perceived as new by an individual or other unit of adoption", whereas diffusion is defined as "the process by which an innovation is communicated through certain channels over time among the members of a social system". Therefore, *Innovation Diffusion Theory (IDT)* states how new ideas, concepts or technologies spread or become common in a society and adopted by users.

Innovation Diffusion Theory (IDT) includes fives characteristics. These are: *Relative Advantage*: "The degree to which an innovation is perceived to be better than the idea it supersedes". when individuals pass through the innovation-decision process, they are motivated to seek information in order to decrease uncertainty about the relative advantage of an innovation. Potential adopters want to know the degree to which a new idea is better than an existing practice. Hence relative advantage is often the content of network messages with regard to an innovation. Relative advantage, in one sense, indicates the strength of the reward or punishment resulting from the adoption of an innovation. There are a number of sub-dimensions of relative advantage such as the degree of economic profitability; decrease in discomfort; time saving; and effort. *Compatibility:* "The degree to which an innovation is perceived as consistent with the existing values, past experiences and needs of potential adopters". An innovation can be compatible or incompatible with socio-cultural values and beliefs; with previously introduced ideas; or with client needs for innovations.

The compatibility of an innovation, as perceived by members of a social system, is positively related to its rate of adoption. *Complexity:* "The degree to which an innovation is perceived as relatively difficult to understand and use". Adoption will be less likely if the innovation is perceived as being complex or difficult to use. Complexity can be considered as the exact opposite of ease of use in the Technology Acceptance model, which has been found to directly impact the adoption of the Internet. Customers will reject an innovation if it is very complex and not user friendly. *Trialability:* "The degree to which an innovation may be experimented with on a limited basis". *Observability:* "The degree to which the results of an innovation are visible to others" (Rogers, 1995).

Technology Acceptance Model (TAM)

According to Girma, (2016) citation, *Technology Acceptance Model (TAM)* was introduced by Fred Davis in 1989 to predict acceptance of new technology. Technology acceptance model is an adaptation of Theory of Reasoned Action (TRA), developed to specifically deal with modeling user acceptance of information systems. As compared to TRA, Technology Acceptance Model is significantly less general. The model was developed to particularly explain the computer usage behavior. But since, TAM includes findings collected from over a decade of Information System.

The Technology Acceptance Model (TAM) defines the casual relationship between perceived usefulness, ease of use, system design features, attitude towards using and actual usage behavior. In general, an informative representation of the mechanisms by which design choices influence user acceptance is provided by TAM. Hence, acceptance behavior. Technology acceptance model is useful in applied contexts for forecasting and evaluating user acceptance of information technology. According to Technology Acceptance Model (TAM), perceived usefulness (PU) and perceived ease of use (PEOU) are two key beliefs that are mainly relevant for computer. *Perceived usefulness (PU)* is defined as the degree to which a potential user thinks that using a particular system would increase his/her job performance. The term usefulness is derived from the word 'useful', which means the advantage of using particular IS. Whereas, *perceived ease of use (PEOU)* is defined as the degree to which a potential user thinks that using a particular system would be free of effort. The word 'ease' means, freedom form difficulty, hardship or effort. In short, ease of use means 'user-friendliness' of IS (Davis , 1989). Prior studies show that perceived ease of use has a significant effect on usage intention, either directly or indirectly through its effect on perceived usefulness (Girma, 2016).

2.2 Empirical review

While different scholars and organizations like Ruecker (2011), Tessema (2003), NBE, ESDG, Mekelle University, Kabtyemer (2015), belgu (2018), Teklay (2011), Teklehaimanot (2014) and Yimer (2011) have conducted studies internationally as well as internally (some have been mentioned in above section) in the past few years regarding the consideration and readiness of Ethiopia in establishment of stock exchange market.

Among them not mentioned in above heading Kabtyemer (2015), belgu (2018), Teklay (2011), Teklehaimanot (2014) and Yimer (2011) studied on the title of "Is Ethiopia ready to institute a stock exchange market?", "should Ethiopia consider establishing stock market?", "should Ethiopia consider establishing of a stock exchange?", "Is Ethiopia ready to commence capital market?", "Analysis of potential beddings, constraints and the dubious"; and "Financial market development, policy and regulation: the international experience and Ethiopia's need for further reform", respectively with the above-mentioned authors findings imply same and almost have the same methodological approach.

Their findings imply that government's reluctance, underdeveloped legal, regulatory and physical infrastructure framework, immature financial sector, low macro-economic conditions, uninformed and small-base domestic investors, lack of transparency and non-existence of skillful and institutionalized market makers are delaying factors for its development and establishment of stock exchange market in Ethiopia. Commencing this, other major elements like: the country's fast economic growth, expansion of energy, initiators and public inclination to incorporated companies, increasing number of share companies and shareholders, invest than save push and increase of capital flow to the country and high demand of loan are seminally backing capital market development and recommends the establishment of stock exchange market as it is significant to mobilize domestic savings and huge capital to close financial gap of financing huge national projects, enhance access to equity finance of the private sector and promoting rapid economic development.

Recently there are studies conducted by Mekelle-University, (2000), Tessema (2003), Wale (2012), Mulatu (2016), gashu (2017), Gizachew (2019) and Ayele (n.d); that focus on the challenges and prospects of establishing stock market in Ethiopia. Among not mention in above heading, (Mulatu, 2016) study aimed at identify factors that affect the development of stock market such as macroeconomic development, government reaction towards stock market investment, financial sectors development. His findings depict that an authorized institution and legal infrastructure is not in placed yet to operate stock market thus far. Given these findings, he concluded that establishing stock market under the current situations of development of key institutional and legal infrastructures is unlikely in Ethiopia.

Gizachew, (2019) study was attempted to assess the comprehensive prospect and challenges of stock market establishment in Ethiopia by focusing on the role of accounting and auditing institution. the findings depict: Ethiopia's economy has many favorable conditions (opportunities) that can pave the way for stock market development. This includes favorable macroeconomic and social conditions, increased interest of foreign investors, the growth and transformation Plan (GTP), financial sector development, increased private sector participation and high enthusiasm among stakeholders. While the launch of stock market is not without challenges, some of the major challenges it mentioned include: inadequate institutional and legal frame work, Low Quality and Quantity of Financial Services, scarcity in Communication Network, Policy Measures Impetus, Gaps in Accounting, Auditing and Legal Infrastructure, Low level of saving and financial literacy, Inadequacies in skilled manpower, and Forms of Business Organizations.

2.2.1 History of stock exchange market

John & Benjamin, (2006) study shows, a country's financial system can rely on two broad based structures. While some systems rely more on banks (Continental Europe), others have put emphasis on markets (Anglo-Saxon). That the debate is still ongoing about the comparative significance of bank-based and market-based financial systems. In a bank-based system the bank is the intermediary between investor (depositor) and the capital user (creditor). Debt is the only one form of capital available for the capital user. In a market-based system the investor and the capital user have a direct legal relationship through some financial instrument – bonds or stocks. Capital is available both as debt (bonds) and as a share of ownership (stocks).

They also mention another study conducted by Levin, (2004) where he reasons the importance of the market-based system in a financial system because there are several limitations in a bank-based structure. Firstly, in the absence of a market-based system, intermediaries with great influence on a firm may use their power to extract more from future profits of the firm. In turn, firms’ ability to invest in innovative and profitable ventures is reduced. Secondly, a market-based system is believed to have greater ability to gather and process information in new and uncertain situations involving innovative products and processes. Thirdly, the market-based approach is believed to more effectively exert corporate governance through identification, isolation and bankruptcy of distressed firms. In contrast, powerful and influential bank management in some countries – while keeping their own interests in primary focus - seem to have strong control of corporations and their decision-making. Fourthly, when banks show concentration of ownership powerful individuals or families can exploit opportunities (e.g. kinship related loans, longer maturity or favorable interest rates) to their own advantage. Fifthly, market-based systems are able to provide more tailor-made risk management tools as the economy matures and the methods to raise capital increases. Finally, sound banking practice and low-risk lending leads to prudence. This approach fosters more conservative corporate strategies and hinders entrepreneurial and industrial risk-taking necessary –hence innovations, crucial to economic growth, are impeded.

The first stock exchange in London was officially formed in 1773, a slight 19 years before the New York Stock Exchange. Whereas the London Stock Exchange (LSE) was handcuffed by the law restricting shares, the New York Stock Exchange has dealt in the trading of stocks, for better or worse, since its inception.

The NYSE wasn't the first stock exchange in the U.S., however, that distinction goes to the Philadelphia Stock Exchange, NYSE quickly became the most powerful one. It was Formed by brokers under the spreading boughs of a buttonwood tree, the New York Stock Exchange made its home on Wall Street. The exchange's location, more than anything else, led to the dominance that the NYSE quickly attained. It was in the heart of all the business and trade coming to and going from the United States, as well as the domestic base for most banks and large corporations. By setting listing requirements and demanding fees, the New York Stock Exchange became a very wealthy institution.

The NYSE faced very little serious domestic competition for the next two centuries. Its international prestige rose with the growing American economy and it was soon the most important stock exchange in the world. The NYSE had its share of ups and downs during the same period, too. Everything from the Great Depression to the Wall Street bombing of 1920 left scars on the exchange - the 1920 bombing left 38 dead and also left literal scars on many of Wall Street's prominent buildings. The less literal scars on the exchange came in the form of stricter listing and reporting requirements.

On the international scene, London emerged as the major exchange for Europe, but many companies that were able to list internationally still listed in New York. Many other countries including Germany, France, the Netherlands, Switzerland, South Africa, Hong Kong, Japan, Australia and Canada developed their own stock exchanges, but these were largely seen as proving grounds for domestic companies to inhabit until they were ready to make the leap to the LSE and from there to the big leagues of the NYSE. Some of these international exchanges are still seen as dangerous territory because of weak listing rules and less rigid government regulation. Despite the existence of stock exchanges in Chicago, Los Angeles, Philadelphia and other major centers, the NYSE was the most powerful stock exchange domestically and internationally. In 1971, however, an upstart emerged to challenge the NYSE domination.

Indian stock market marks to be one of the oldest stock markets in Asia. It dates back to the close of 18th century when the East India Company used to transact loan securities. In the 1830s, trading on corporate stocks and shares in Bank and Cotton presses took place in Bombay. Though the trading was broad but the brokers were hardly half dozen during 1840 and 1850. An informal group of 22 stockbrokers began trading under a banyan tree opposite the Town Hall of Bombay from the mid-1850s, each investing a (then) princely amount of Rupee 1. This banyan tree still stands in the Horniman Circle Park, Mumbai. In 1860, the exchange flourished with 60 brokers.

In fact, the 'Share Mania' in India began with the American Civil War broke and the cotton supply from the US to Europe stopped. Further the brokers increased to 250. The informal group of stockbrokers organized themselves as the, The Native Share and Stockbrokers Association which, in 1875, was formally organized as the Bombay Stock Exchange (BSE). In 1956, the Government of India recognized the Bombay Stock Exchange as the first stock exchange in the country under the Securities Contracts (Regulation) Act. The most decisive period in the history of the BSE took place after 1992. In the aftermath of a major scandal with market manipulation involving a BSE member named Harshad Mehta, BSE responded to calls for reform with inflexibility. The foot-dragging by the BSE helped radicalize the position of the government, which encouraged the creation of the National Stock Exchange (NSE), which created an electronic marketplace.

2.2.2 Overview of Ethiopian stock exchange market

2.2.2.1 Stock exchange during the Imperial period

Corresponding to (gashu, 2017) study citing's, during the Imperial period there were signs for the establishment of a stock exchange. Commencing from the issuance of the first share for public subscription in 1956 by a company called Ethiopian Abattoirs, share exchange was carried out through the facilitation of the then state bank of Ethiopia. However, the dealing was short of to be an organized stock exchange as it was carried out through the modality of over- the counter stock markets. There was no specific law which is instrumental for such operation to be considered and elevated as a formal and organized legal entity to deal with stock exchange.

Because of the growth of the economy and the increment of the number of share companies, by the 1965 an alternative institutional scheme was devised to facilitate and self- regulate the operation of the security market known as the Share Dealing Group. The group was consisted of six institutions which were the National Bank of Ethiopia, Addis Ababa Bank, the Commercial Bank of Ethiopia, the Development Bank of Ethiopia, the Investment Bank of Ethiopia, Sabean Utility Corporation, and a certain individual named Mr. Alfred Abel.

Though it can be said it was a good beginning towards an organized stock exchange, it cannot be asserted here that there was an organized stock exchange in the absence of a legislation that conferred the establishment of a stock exchange with its own regulatory authorities, rules for listing of stocks, sufficient rules that govern the behavior of the auxiliaries, and soon. In connection with share companies the commercial code has authorized the issuance of debentures which can be transferable (marketed) form one individual to another.

However, a critical review of these relevant parts of the code assures that the provisions are rather insufficient indications for the establishment of a stock exchange than an adequate law that provide the rules of the game for the establishment of the exchange. This is because, a developed and proper stock exchange has a law in its back that prescribe the recognition of the stock exchange as an entity, rules on issuing of new securities, rules for listing of securities, govern credit rating agencies, regulate the market behavior of auxiliaries (like stock brokers), rules of adequate disclosure and transparency of information regarding a given security, effective and immediate dispute settlement avenues, and law that authorizes a supervisory organ that supervise the proper running of the stock exchange. Seen from the advantage of these basics of an organized stock exchange, one can deduce that the above cited and examined provisions of the commercial code are too rudimentary to be sufficient.

The establishment of a stock exchange in the Ethiopian business landscape is also indicated in the government bonds proclamations enacted during the time of the Imperial period. proclamation number 172/1961, it authorizes the issuing of government bonds with the respective par value, interest rate as well as maturity date. In the preamble of this proclamation it is succinctly pointed out that issuance of a bond is a way for starting one organized capital market in the country. According to this it clear that issuing of Treasury bill was understood as one important facility for establishment of a capital market in the then regime. Apart from this, establishing one capital market by giving the necessary security to mobilize money and capital was earmarked in the preamble of the proclamation. However, there is no such law enacted for the organization of capital market during that time except for the enactment of regulations as well as subsequent proclamations merely dealing with issuance of government bonds.

2.2.2.2 Stock exchange during the Derg period

This regime is well known for its nationalization and transfer in to government ownership of financial institutions and large companies in 1975. With this event, the Share Dealing Group formed in 1965 came to an end as well as highly dysfunction the commercial code. Hence, one can say that the Derg regime has militated against the promising institutional and legal development towards an organized stock exchange in Ethiopia. It is not over speculation to assert that if this share dealing group continued its task practically, a supporting legal instrument for formal stock exchange would have been materialized. Hence, the Derg regime was really a hindrance for the legal development of organized stock exchange in Ethiopia (gashu, 2017).

2.2.2.3 Stock exchange during the current EPRDF government period

Ethiopia currently does not have a stock market except treasury bills and government bonds; however, share companies including financial institutions, brewery and cement factories are being set up using equity finance rose from the public by Initial Public Offerings (IPOs). Financial institutions, including contractual saving institutions have accumulated equity capital; profitable projects are established and may establish to raise equity capital for stock market (Mulatu, 2016).

According to (The world bank, 2018) report currently, Capital markets in Ethiopia mainly comprise Treasury bills (T-bills) and government bonds. T-bills are transacted on a weekly basis and government bonds are occasionally issued. The maturities of T-bills are 28, 91, 182, and 364 days; 91 and 364 days are the most demanded terms. The total outstanding T-bills as of December 2016, was US$2.9 billion. The Public Servants Social Security Agency, Development Bank of Ethiopia, and Private Organization Employees Social Security Agency are the three major buyers of T-bills in Ethiopia. Outstanding corporate bond holdings reached US$9 billion as of December 2016, of which about 94 percent was held by two state-owned institutions: Ethiopia Electric Power (85.4 percent) and Railways Corporation (8.7 percent). The Commercial Bank of Ethiopia is the sole purchaser of these bonds, making the bank susceptible to the financial performance of SOEs and single-borrower risk. Ethiopia has yet to develop a secondary capital market.

In the current Ethiopian People's Revolutionary Democratic Front (EPRDF) period of office of Ethiopia, one can't find a law which prescribes the rules for the establishment of an organized stock exchange. One thing that must be mentioned at this moment is that the commercial code of the country which has some fundamental rules in relation to stock market has revived with the coming into power of this regime. However, the code doesn't have sufficient rules for the effective running of the complex market of stock exchange. Indeed, the commercial code is not the only law which govern the overall affair of transferable security issuing business organization i.e. share company in the land of Ethiopia. There were/are specific proclamations which amended/amend the code and govern a share company in relation to business registration and licensing. There are also proclamation No. 592/2000 that amended some rules of the commercial code in relation to banking sector share companies, proclamation No. 746/2012 in relation to insurance business share companies and proclamation No. 626/2009 in relation to micro finance business companies.

A study by (gashu, 2017) implies that there is still no a supervisory organ for stock exchange, no establishing law for the stock market, no law which regulate listing of shares and so on. In the regime of EPRDF there is no any significant legal development towards the development of an organized stock market in the country that the revival of the effectiveness of the commercial code and enactment of some specific amending laws of the code that has no a profound effect on stock exchange. Despite this, it doesn't mean that there is no movement in the concerned government organs, in the academician and other stakeholders advocating towards the establishment of an organized stock exchange in the country.

Some of the steps to be cited here as instances include the study undertaken by the National Bank of Ethiopia (NBE) in 1995 on the topic "Feasibility of Establishing of Securities Exchange Market in Ethiopia" and its draft securities and exchange proclamation, the organization of the Ethiopian Share Dealing Group under the Addis Ababa Chamber of Commerce and Sectoral Association in the year 2000 and its initiation of the development of the stock exchange rules and regulations as well as share dealing group and the development of an international rules and standards manual consisting of membership requirements, listing rules, requirement for insurers, listing of shares, listing of bonds, trading rules, rules for clearing and settlement of stock exchange transactions. Nonetheless, in spite of these efforts, the current government of the country is reluctant until now to come up with a legislative instrument that serves as a benefactor for the birth and well-functioning of an organized stock exchange. There has been an investigation on the whys of this reluctance from the side of the government. Accordingly, it is found out that the basic reason for this is the position of the government that an establishing an organized stock market is not the policy priority of the country (gashu, 2017).

2.2.3 Role of exchange markets

As per (Teklehaimanot, 2014) study citation shows, Studies have been made to analyze the impact of establishing capital market on economic growth of countries. Those studies conducted in advanced economies have substantiated the significance of capital markets in such economy. Ouandlous (2010), for example, underlined that without the establishment and development of capital markets, none of the advanced economies have achieved outstanding economic development. Mishra et al (2010), Asrat (2003), and Bekaert and Harvey (1997) stated also that development of securities market contributes to economic development by pooling domestic savings and attracting foreign capital and channels for productive investments.

Exchanges also ensure that trading occurs according to predefined, public rules and that information about the prices at which investors are willing to buy and sell, and the prices at which instruments have sold (pre- and post-trade transparency) are publicly available. Exchanges are supervised by a securities market regulator. Different jurisdictions have different models of who is responsible for what element of market regulation. All markets with an exchange will stipulate:

- The listings requirements (the requirements that companies wishing to list on the exchange must meet initially and on an ongoing basis, and the information they are required to disclose to the public);
- The membership requirements (the financial, educational, conduct and other requirements that the entities who trade on the exchange on behalf of investors must meet);
- The trading rules (the rules according to which, for example, buy-and-sell orders are matched, the price determination process, what happens in the event of errors, the moment at which a binding transaction is concluded); and

The process for clearing and settlement of transactions (e.g. how the transfer of ownership of shares and cash is affected, over what time period, and how defaults are managed). Regardless of the specific regulatory structure, all exchanges will have some responsibility for ensuring compliance with these aspects of market regulation and engaging in some level of market surveillance (The United Nations Conference on Trade and Development UNCTAD, 2017)

2.2.4 Benefit of establishing stock exchange market

according to (belgu, 2018), benefits of establishing stock exchange market include: promotion of savings by providing an alternative financial vehicle for individuals to meet their risk preferences and liquidity needs, thereby increasing the saving in the market. Stock markets also promote growth at a listed company level, as the firm can mobilize capital at a lower cost of capital as risk is shared widely in the market place. This leads to value creation. In addition, through liquidity provision, stocks markets help promote adoption of illiquid long-term projects, since investors in the firm may liquidate their stock positions through the market.

Security exchange (stock exchange) is significant for the economy in the following ways: For effectively raising capital for commercial purpose and opening an investment opportunity for individuals and institutions, Mobilizes domestic saving as it creates additional investment portfolio options, It contributes an important role for liquidity of capital investment and Enhances corporate governance since it creates an easy forum for discontented security holder to sell her security which in turn puts a pressure on the management of companies to improve their governance so as to preserve their fame as well as to avoid any hostile takeover.

According to (United Nations Sustainable Stock Exchanges (SSE) initiative, 2016) report; Based on an analysis conducted on both group and individual consultations with exchanges over the past months, as well as the sustainable stock exchanges (SSE's) event and sustainable development goals (SDG) Policy Brief at the New York Stock Exchange in September 2015, which was held alongside the launch of the sustainable development goals at UN Headquarters; Stock exchanges play a critical role connecting investors and companies in their markets and as such are well positioned to play a direct role in achieving the (SDGs). The goals are cross cutting in nature and there are various ways stock exchanges can impact many of the targets; however, five of the SDGs; gender equality, decent work and economic growth, responsible consumption and production, climate action and partnerships for the goals have been identified as areas where stock exchanges can take concrete steps.

2.2.5 Prerequisites for establishing stock exchange market

(John & Benjamin, 2006), the capital market can be described as a supply-demand relationship for investments and capital. From the investor's point of view, there is a demand for investments that can provide returns and a supply of potential investments. Conversely, the bond or share issuing entity sees a demand for and a supply of capital. The extent to which this supply-demand relationship can actually be satisfied is affected by various macro environment factors. A capital market relies on some fundamental institutions in a society, all related to security and rule of law. If these basic conditions do not exist, it is hard to persuade investors to (voluntarily) supply funds when a promise of future returns cannot be backed up by a reliable legal system, or when the investors do not trust that they will be allowed to keep or benefit from such returns.

An organized stock exchange mandatorily requires the existence of a law that recognizes the market as an entity, regulate the issuance of securities, the subsequent transactions of securities, rules of listing, rules regulating disclosure of information, rules regulating axillaries like stock brokers, rules regulating insider trading, rules establishing and authorizing supervisory authority, and rules for settlement of disputes arising out of securities transaction (gashu, 2017).

In (John & Benjamin, 2006) study, they list five major necessary conditions that should be fulfilled and answered 'yes' on their study through there model to show financial system development, capital markets in developing countries with economic growth. The questions that need to be answered 'yes' according to them were:

- Is there peace in the country?
- Is the internal security situation acceptable?
- Is the government functioning and in control of the territory?
- Is there rule of law and sufficiently strong and independent legal information?
- And is there protection of property rights and free private ownership?

Failing one or several of these tests does not necessarily mean that capital markets do not exist – there are active, if poorly functioning, stock exchanges in both Iraq and Zimbabwe. This question contains more factors as: no active war with another nation significantly affecting the security situation (Eritrea before the ceasefire with Ethiopia in 2000, would be an example of a country where the answer was 'no' including ethnic conflicts, insurgencies, guerrilla warfare and terrorism). If a country passes the criteria in the first step of the selection process it means that there are no conditions making it impossible for a capital market to be developed. This does not however determine the potential and actual development of the capital market. To find this out the environment of the capital market as well as the capital market itself must be studied in more detail. The second step in the model deals with the analysis of the external environment which by itself is divided into three categories: *capital availability, investment opportunity and macro environment*.

Capital availability includes factors that describe the sources of capital that seek investment opportunities within the capital market. These can be from domestic or foreign sources, and range from domestic savings rate to availability of foreign portfolio investment. There are also factors that determine the willingness of investors to invest their capital in the capital market. *Investment opportunities* are the financial products and underlying assets available in the capital market – the shares of listed companies, government and corporate bonds and other securities. Factors that describe this category range from the number of listed companies in the country to the availability and diversity of government bonds. *Macro environment* factors try to capture circumstances that indirectly affect the supply-demand relationship of capital and investments described above, for example by determining the overall economic development of the country or the level of trust in institutions that exists. Such factors can be as diverse as the GDP of the country (which is correlated to the amount of capital available in the country) and the level of corruption (which affects trust, and in turn the willingness of an investor to take on risk for the promise of future returns) (John & Benjamin, 2006).

2.2.6 Factors affecting Efficiency of stock exchange

Different authors have mentioned about factors necessary for the well-functioning of stock markets. Among this: government infrastructure and initiations, legal infrastructure and requirement, regulation of stock exchange, technological infrastructure and development, macroeconomic stability, public awareness of stock market, private sector development, economic growth and financial sector development, and capital by companies and initiation are seen by scholars as factors affecting stock exchange market.

Government

Relates to the rule of law and how sufficiently strong and independent is the legal institution to protect property rights and encourage private ownership. It also relates to the degree of stability, peace and internal security of a country and how well the government is functioning and is in control.

Despite this, after 1991 financial sector liberalization is not extended to diverse vehicles including capital market establishment. The Government of Ethiopia has remained reluctant and ambivalent to launch the securities market (specifically the secondary market) in the country. But there are recent initiations and consideration to establish stock market in coming months.

Legal infrastructure

For an efficient market to operate there has to be a well-founded, clear, transparent and enforceable legal environment. The activity in both the primary and secondary market occurs within a framework of laws, rules and regulations, aimed at ensuring the existence of fair, transparent and orderly markets. To achieve these objectives, these rules and regulations will typically provide for the protection of investor assets, the process for transferring ownership of shares, the requirements with which companies that are listed on markets must comply, and processes for ensuring settlement of disputes (The United Nations Conference on Trade and Development UNCTAD, 2017).

As (gashu, 2017) explanation, an organized stock exchange should have an elaborate legislation and regulatory organ in order to protect investors of securities from among others frauds, misrepresentations, collusion between brokers, insider trading, and selective disclosure of information. The legal aspect of the development of stock exchange must be examined in light of the presence of laws which prescribe the issuing of new securities, rules for listing of securities, govern credit rating agencies, regulate the market behavior of auxiliaries (like stock brokers), rules of adequate disclosure and transparency of information regarding a given security, effective and; immediate dispute settlement avenues, and law that authorizes a supervisory organ that supervise the proper running of the stock exchange.

In Ethiopia there is no particular securities law which is enacted to regulate and address these issues. In addition to this, it is very clear that legal regimes governing public offering of corporate securities are inextricable from the process of share company formation and operation since it is this form of business organization that is authorized to issue transferable corporate securities. The legal regimes governing share companies are the commercial code of Ethiopia, civil code of Ethiopia, banking business proclamation, insurance business proclamation, Micro finance business proclamations, Business licensing and Registration Proclamation, and other specific government institutions which issue license under their specific jurisdictions. An attempt to examine the development of the legal aspect of stock exchange in Ethiopia requires to go through the analysis of these laws on whether they have rules on the issuance of securities, rules that govern the behavior of auxiliaries, rules that prescribe insider trading, rules that mandatorily require disclosure of information, rules regarding listing of securities, rules establishing and governing credit rating agencies, rules on the establishment of stock exchange as an entity, rules that provide the establishment and power of the security regulatory authority, and rules on the settlement of disputes arising out of stock market (gashu, 2017).

Regulation

According to (Teklehaimanot, 2014), Regulation of stock exchange market is necessary to promote public confidence, protect investors and the economy from malpractice and wild conditions

Though the importance, extent and form of regulating capital (securities) market is debatable, countries have been rethinking on their regulation particularly after the 2007 global financial crisis. Now days, market regulations are believed to improve market efficiency, protect investors and enhance public confidence. Information obtained from the study reveals, for countries like Ethiopia where systems and structures are not well cultivated, the availability of legal framework and supervisory body is essential for the establishment and development of capital market to ensure the macro and microeconomic stability.

Discussants uphold the significance of market regulation to envisage transparency and protect participants from information asymmetry and market anomalies. But Ethiopia has no sufficient and up-to standard proclamations, legal and regulatory frameworks to regulate the exchange of securities, even issued in the initial public offering (primary market). Under the proclamation no. 166 of 1960 commercial code, Book-II (Business organizations), Title-VI (companies limited by shares) describes only the functions of companies to raise capital through initial public offering. The code pinpoints the formations of partnerships, joint venture, private limited companies and share companies. It further details the provisions for the establishment of private limited and share companies (Teklehaimanot, 2014).

Further his studies show, the commercial registration and business licensing proclamation no. 686/2010 is a common proclamation for all business types registered in the Ministry of Trade. Article 12 of this proclamation (sub-articles 1-5) states only the general requirements for the establishment of share companies. The code and the proclamations fail to explain the subsequent transactions of the securities in an open market (secondary market), and ways of regulation. There are no criteria for listing and delisting of companies in the market. The decades' old code and other proclamations are inadequate to supervise and regulate the fraudulent activities of share issuing companies, to protect investors from market irregularities and off-balance sheet activities.

Macroeconomic Stability

A stable macroeconomic environment is crucial for the development of the stock market. Macroeconomic volatility worsens the problem of informational asymmetries and becomes a source of vulnerability to the financial system. Low and predictable rates of inflation are more likely to contribute to stock market development and economic growth (belgu, 2018).

Technological infrastructure

Information and communication technology (ICT) have become a powerful tool for development. Extending its role from improving education and health system to widening business opportunities. For actors in the capital market, ICT is vital to communicate and exchange information swiftly; hence, make capital markets more efficient by including all information in Stock prices (Teklehaimanot, 2014). Automation helps to speed up operations and activities of exchanges and reduces cost associated with manual systems. In addition, automation makes it easier to extend trading days and hours due to less cumbersome procedures. Automated trading also eliminates the need for trade intermediation since investors can log onto systems to monitor markets and also trade on markets, thus bypassing the use of brokers (belgu, 2018).

Public awareness of stock markets

Awareness about stock exchange markets affects the degree of participation in the markets. If the public is unaware about what stock markets are, the associated benefits and risks and what actions to take whenever some market incidents occur, potential market participants will diminish, hence creating a barrier to entry (belgu, 2018).

Due to lack of public awareness campaigns, limited exposure to global markets and for educational matters, the domestic investors in Ethiopia are not well informed about trading securities and the functionalities of capital market. The inexistence of institutional investors due to lower level saving capacity and practice is another limiting factor to put a baseline for the establishment of the capital market. What is more, it is uncommon that concerned institutions conduct organized and vigorous seminars, conferences and workshops to spark, extend and enhance the concept of capital market in the general public and particularly investors. Many companies have been and are established under conservatively financed initially publicly traded companies in a traditional window-shopping system, shares held by thousands of investors none of whom hold a large percentage of shares and nowhere to sell then after to get back even the principal. Due to the small base of domestic investors and limited capacity of the private sector, shortage of capital is a constraining fact to ensure rapid economic development in the nation (Teklehaimanot, 2014).

Capital by companies and initiation

As with market capitalization, the number of companies, listed or privately held, is of interest when estimating the current and future potential of the capital market. A large number of listed companies not only means more diversity for investors, but is also a source of income – through recurring listing fees for issuers – for a sustainable stock exchange. The market capitalization of companies listed on an exchange in the country represents the total value of those companies. The higher this value, the bigger is the pool of capital that could potentially be allocated and re-allocated in a capital market (John & Benjamin, 2006).

CHAPTER THREE: Research Design and Methodology

This chapter presented the methodological framework that was applied to solve the research problem and to answer the research questions. The chapter started with the chosen research design, research approach, method of data collection, sample and sampling design and chosen methods of data analysis, interpretation and presentation.

3.1 Research design

A research design is the conceptual structure with in which research is conducted; it constitutes the blue print for the collection, measurements and analysis of data as such the design includes on outline of what the researcher will do from writing the hypothesis its operational implications to the final analysis of data. Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money (Kothari, 2004).

Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual, or of a group and studies concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation. Studies concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation are all examples of descriptive research studies. In most of the descriptive studies the researcher takes out sample(s) and then wishes to make statements about the population on the basis of the sample analysis or analyses. More often than not, sample has to be designed (Kothari, 2004).

The survey strategy is very popular in business research, because it allows the researcher to collect quantitative and qualitative data on many types of research questions. Indeed, surveys are commonly used in exploratory and descriptive research to collect data about people, events, or situations. A study can be undertaken in which data are gathered just once, perhaps over a period of days or weeks or months, in order to answer a research question. Such studies are called one-shot or cross-sectional studies (Sekaran & Bougie, 2016).

As per this, the research design for this study was a descriptive survey research where a cross-sectional study was selected as a study time frame. Mixed research approach which is both quantitative and qualitative approaches was applied since the objective(s) mainly focused on examining challenges and prospects towards the establishment of stock exchange market in Ethiopia by using it as dependent variable and describing the effect by considering institutional infrastructures frameworks, public awareness and trust in share investment, technological infrastructures and macro-economic levels as independent variables.

The study was conducted by collecting data from both primary and secondary sources as being relevant to the study objective(s). In spite of this the researcher used both probability and non-probability sampling methods, where simple random sampling technique for probability sampling method and purposive sampling judgmental technique for non-probability sampling method. On the other hand, the researcher used data collection instrument like; questionnaire. Close-ended questionnaire was in use to gain ample information and describe regarding the study area.

The research was on share companies incorporated in Ethiopia, government officials and the share dealers of these share companies. According to the calculation using simple random sampling, it results 90 share companies were selected as a sample for contacting the share company managers while 5 government officials and 5 share company dealers are selected purposively using non-probability purposive sampling method, totaling 100 samples to be drawn.

3.2 Research approach

A research approach is a conceptual plans and procedures for conducting a study that span from broad assumption to detailed flow of data collection, analysis and interpretation. Qualitative research designs are usually meant for researches that require depth instead of breath and is concerned with subjective assessment of attitudes, opinions and behavior. while quantitative research design involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion (Kothari, 2004). Mixed methods research on the other hand, aims to answer research questions that cannot be answered by “qualitative” or “quantitative” approaches alone. It focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a single study or series of studies. The attractiveness of this approach is that it allows researchers to combine inductive and deductive thinking, to use more than one research method to address the research problem, and to solve this problem using different types of data (Sekaran & Bougie, 2016).

In keeping with the logics of the above statements and the general objective of this study which is: to examine the challenges and prospects towards the establishment of stock exchange market in Ethiopia, it required the formulation of mixed research approach which is both quantitative and qualitative approach included. Quantitative approach in respect to expression of reports in terms of numerical figures and Qualitative approach in respect to defining and explaining variables in more elaborative manner. Therefore, mixed research approach which contains both qualitative and quantitative research approaches was the right approach to use in this study.

3.3 Types and sources of data

Because the study followed descriptive research design and mixed research approach, the study was conducted by collecting data from both primary and secondary sources as being relevant to the study objective(s). Primary data was obtained from self-administered questionnaire. Secondary sources of data were obtained from documents that was relevant to the study objective(s).

Primary sources of data include share company managers, government officials and share company share dealers. While secondary sources of data were like reports of the world bank development indicators, government activities plan, National bank of Ethiopia reports, official websites of international organizations (like world bank, IMF, world exchanges organization, CIA fact book and various governmental and non-governmental institutions reports), various journals and literature; and finally rules, regulations, procedures and laws that is linked to the study area.

3.4 Methods of data collection

As per (Kothari, 2004), the task of data collection begins after a research problem has been defined and research design/ plan chalked out. Primary data are those which are collected fresh and for the first time, and thus happen to be original in character. Secondary data, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. they refer to the data which have already been collected and analyzed by someone else.

Primary data can be obtained through observation or through direct communication with respondents in one form or another or through personal interviews. There are several methods of collecting primary data, particularly in surveys and descriptive researches. Important ones are: (i) observation method, (ii) interview method, (iii) through questionnaires, (iv) through schedules, and (v) other methods (Kothari, 2004).

Secondary data may either be published data or unpublished data. Usually published data are available in: (a) various publications of the central, state are local governments; (b) various publications of foreign governments or of international bodies and their subsidiary organizations; (c) reports and publications of various associations connected with business and industry, banks, stock exchanges, etc.; (d) reports prepared by research scholars, universities, economists, etc. in different fields; and (e) public records and statistics, historical documents, and other sources of published information. The sources of unpublished data are many; they may be found in diaries, letters, unpublished biographies and autobiographies and also may be available with scholars and research workers, trade associations, labor bureaus and other public/ private individuals and organizations (Kothari, 2004).

In order to collect sufficient data so as to achieve the objective(s) of the study, the researcher used both primary and secondary data. primary data was collected using instrument like; questionnaire. Close-ended questionnaire was used to gain ample information and describe regarding the study area. Secondary data were collected through assessing different theoretical and empirical studies of different scholars, academicians, experiences of other African countries on their stock exchange market establishment and describing the challenges and prospects that will be faced and gained while the establishment of Ethiopia's stock exchange market.

Questionnaires are generally designed to collect large numbers of quantitative data. They can be administered personally, distributed electronically, or mailed to the respondents. Questionnaires are generally less expensive and time consuming than interviews and observation. When the survey is confined to a local area a good way to collect data is to personally administer the questionnaires. The main advantage of this is that the researcher or a member of the research team can collect all the completed responses within a short period of time. Any doubts that the respondents might have on any question can be clarified on the spot. The researcher also has the opportunity to introduce the research topic and motivate the respondents to offer their frank answers. Administering questionnaires to large numbers of individuals at the same time is less expensive and consumes less time than interviewing (Sekaran & Bougie, 2016).

In regard to questionnaires data collection method, it consisted a number of questions typed and printed in a definite order on a form and are structurally designed close-ended questions were handled to share company managers, government officials and share dealers personally by the researcher; that means the questionnaires were administered personally. This is due to the location of respondents confined to be in Addis Ababa, Ethiopia.

3.5 Sample and sampling design

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. Sample design may as well lay down the number of items to be included in the sample i.e., the size of the sample. Sample design is determined before data are collected (Kothari, 2004).

All items in any field of inquiry constitute a 'Universe' or 'Population'. A population is a group of individuals, persons, objects or items from which samples are taken for measurement. The first step in developing any sample design is to clearly define the set of objects, technically called the Universe, to be studied. The universe can be finite or infinite. Sample size refers to the number of items to be selected from total population to constitute a sample (Kothari, 2004). Sampling is the process of selecting a sufficient number of the right elements from the population, so that a study of the sample and an understanding of its properties or characteristics make it possible for us to generalize such properties or characteristics to the population elements (Sekaran & Bougie, 2016).

In order to collect data from listed primary sources (whom are share company managers, government official and share company dealers), the researcher collected basic information from the ministry of trade regarding number of share companies incorporated in Ethiopia. According to the data there are currently 2499 share companies across Ethiopia and among them 979 companies are based in Addis Ababa, Ethiopia. From this the researcher used 2499 share companies as total population of study area and from this 979 share companies were selected as target population of study and sample was drawn from them.

Sample designs are basically of two types viz., non-probability sampling and probability sampling. Non-probability sampling is that sampling procedure which does not afford any basis for estimating the probability that each item in the population has of being included in the sample. Non-probability sampling is also known by different names such as deliberate sampling, purposive sampling and judgement sampling. In this type of sampling, items for the sample are selected deliberately by the researcher; his choice concerning the items remains supreme. In other words, under non-probability sampling the [organizers] of the inquiry purposively choose the particular units of the universe for constituting a sample on the basis that the small mass that they so select out of a huge one will be typical or representative of the whole. While on the other hand, probability sampling is also known as 'random sampling' or 'chance sampling'. Under this sampling design, every item of the universe has an equal chance of inclusion in the sample. It is, so to say, a lottery method in which individual units are picked up from the whole group not deliberately but by some mechanical process (Kothari, 2004).

In order to undertake the study, the researcher used probability and non-probability sampling design, simple random sampling technique for probability sampling and purposive sampling judgmental techniques for non-probability sampling. Probability sampling was used in order to draw samples from share companies and used simple random sampling technique. In regards to non-probability sampling, the researcher used purposive sampling technique to select samples for government officials and share company dealers, where samples were believed to possess the required knowledge and expertise on the subject matter. This is because it is believed that these government officials and share company share dealers have the current and contemporary information on share dealing activities in the country. This is done due to the researchers living and study area, budget and time constraints and expectation of exposure regarding the study matter were to be high in Addis Ababa as well as main offices are located here.

n = Sample size

N = Target population

e = Error (10%)

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

$$n = \frac{979}{1+979(0.1)^2}$$

$$n = \underline{\underline{90}}$$

The researcher used the above formula in regards to simple random sampling to determine the sample size of share companies from the target population of 979.

Sampling errors are the random variations in the sample estimates around the true population parameters (Kothari, 2004). The research was on share companies incorporated in Ethiopia, government officials and the share dealers of these share companies. According to the calculation using simple random sampling, it resulted 90 share companies were to be selected as a sample for contacting the share company managers while 5 government officials and 5 share company dealers were selected purposively using non-probability purposive sampling method making the total sample size 100 for this study.

(Bryman & Bell, 2011) to prove the probability of inclusion of all the target population as well as the total population by the sample we will conduct a sampling fraction test using this formula $\frac{N}{n}$.

$n = 90$	$n = 979$
Eq1. $N = 979$	Eq2. $N = 2499$
$\frac{979}{90} = \underline{\underline{10.8}}$	$\frac{2499}{979} = \underline{\underline{2.55}}$

This shows in Eq1. That there is 1 to 10.8 expression where 90 sample represents 979 of the target population and Eq2. Shows the selection of 979 share companies located in Addis Ababa represent 1 to 2.55 share companies from 2499 total population of share companies incorporated in Ethiopia. This expression proves the sample number considered by the researcher is sufficient for generalization of the study based on the findings to be collected.

3.6 Methods of data analysis, interpretation and presentation

After data was obtained through questionnaires, they need to be coded, keyed in, and edited. That is, a categorization scheme has to be set up before the data can be typed in. Then, outliers, inconsistencies, and blank responses, if any, have to be handled in some way. The first step in data preparation is data coding. Data coding involves assigning a number to the participants' responses so they can be entered into a database. After responses have been coded, they can be entered into a database. Raw data can be entered through any software program. After the data are keyed in, they need to be edited. Data editing deals with detecting and correcting illogical, inconsistent, or illegal data and omissions in the information returned by the participants of the study (Sekaran & Bougie, 2016).

To analyse the data collected, the researcher used descriptive analysis with mixed analysis methods which consists of qualitative and quantitative data analysis. Descriptive analysis helped describe the characteristics of the respondents as well the qualitative statement. Quantitative analysis helped analyse the close-ended questionnaires and Qualitative analysis helped analyse secondary source collected information. In doing so, the information that was gathered was labelled with respect to their variables using excel and Stata 14.2 software, then prepared for analysis into the document, after that edited and presented in an elaborative way in a more convenient and understandable manner. In addition to this, a statistics data analysis software Stata 14.2, was used in aiding with coding responses, analysing in different operations and presentation of formalized report in tables, figures and charts.

CHAPTER FOUR: Data Presentation and Analysis

This chapter presented data collected through primary and secondary sources. Primary data sources were collected from survey questionnaire and analyzed based on the data collected while on the other hand, secondary data sources collected from different theoretical and empirical studies of different scholars, academicians, local and international government, non-government organizations as well as official reports. The responses were presented and analyzed to address the questions raised in the study and meet objectives of the study - challenges and prospects towards the establishment of stock exchange market in Ethiopia. The data collected through survey questionnaires were analyzed using descriptive statistics analysis with mixed analysis methods which consists of qualitative and quantitative data analysis.

4.1 Result of the survey

A total of 100 questionnaires were distributed (90 to share company managers, 5 to government officials and 5 to share company share dealers) in order to collect data about *challenges and prospects towards the establishment of stock exchange market in Ethiopia*. Out of the questionnaires distributed, a total of 84 (84%) usable responses were obtained (79 from share company managers, 3 from government officials and 2 from share company share dealers) while the rest 16 (16%) were not returned by the respondents.

4.2. Background information of respondents

Table 2.1. background information of respondents regarding their gender.

Gender/Sex:	Freq.	Percent	Cum.
F	32	38.10	38.10
M	52	61.90	100.00
Total	84	100.00	

The above Table 2.1 shows that from a total of 84 responses obtained, 52 respondents (61.9%) of the respondents are male and the rest 32 (38.1%) are female. This shows a plausible and appreciable role of men and woman in management roles.

Table 2.2. background information of respondents regarding their age.

Age (in years):	Freq.	Percent	Cum.
25-29	24	28.57	28.57
30-34	22	26.19	54.76
35-39	14	16.67	71.43
40-45	12	14.29	85.71
<25	10	11.90	97.62
> 45	2	2.38	100.00
Total	84	100.00	

The above Table 2.2 shows that from a total of 84 responses obtained, 24 respondents (28.57%) are in the age between 25 and 29, 22 respondents (26.19%) are in the age between 30 and 34, 14 respondents (16.67%) are between 35 and 39 while the rest respondents 12 (14.29%),10 (11.90%),2 (2.38%) lie between 40 and 45, less than 25 and above 45 respectively. This shows that most of the respondents are on the productive age.

Table 2.3. background information of respondents regarding their level of education.

Level of Education attained:	Freq.	Percent	Cum.
Degree	62	73.81	73.81
Diploma	2	2.38	76.19
masters	20	23.81	100.00
Total	84	100.00	

The above Table 2.3 shows 84 respondents education level. As per the table 62 respondents (73.81%) have bachelor degree while 20 respondents (23.81%) have master's degree. On the other hand, 2 respondents (2.38%) have diploma. This shows there are no illiterate respondents and are well educated enough and this helps in the future to perform different services effectively while enabling this research with ample and necessary data to conduct the paper.

Table2.4. background information of company regarding their means of shares sold.

Means of shares sold:	Freq.	Percent	Cum.
informal communication	10	11.90	11.90
dealer's/broker's	10	11.90	23.81
the company it self	64	76.19	100.00
Total	84	100.00	

Table 2.4 shows out of 84 surveyed respondents, 64 respondents (76.19%) indicated the company itself sold shares, while 10 respondents (11.90%) said that dealers/ brokers were involved in share selling; on the other hand, 10 respondents (11.90%) replied informal communication were used to sale the share of the company. This implies that, because of the un-establishment of stock exchange market as well as secondary market, companies have to take the burden and responsibilities of selling their shares by their own leading to un-efficient use of company resources, financial resources and time.

4.3 Advantages of establishing stock exchange market in Ethiopia

Regarding the advantages of establishing stock market in Ethiopia, the study assessed respondents using structured questionnaire using a five (5) scale Likert scale score consisting (strongly agree, agree, neutral, disagree and strongly disagree) and the result of the respondents view and other relevant literatures on the area were discussed below.

1. Promotes private sector development and Supports transparent and efficient privatization process

The need for reforms to stimulate private sector development (PSD) to facilitate poverty reduction has been the government's key objectives and a strategy to achieve them were outlined. The objectives are to increase the contribution of private sector to GDP as measured by private investment in GDP and to increase factor productivity. This is to be achieved through a comprehensive package of reforms which would be implemented in a gradual manner over the medium- to long-term. As per this, reforms include a wide range of measures aiming to improve the investment climate (including privatization), trade policy, reduce the regulatory burden (including tax policy and administration).

Table 3.1 below shows regarding advantage of stock market establishment in promoting private sector development. 44 respondents (52.38%) strongly agree and 36 respondents (42.86%) agree giving a total remark of 80 (95.24%) agreement while the rest 4 respondents (4.76%) were neutral. This implies the establishment of stock exchange market in Ethiopia will help in private sector development.

Table 3.1. Promotion of private sector development

Q1	Freq.	Percent	Cum.
Agree	36	42.86	42.86
Neutral	4	4.76	47.62
Strongly Agree	44	52.38	100.00
Total	84	100.00	

Access to and ease in movement of financial resources fundamentally influences the prospects for private sector growth in developing countries' economies. The extent to which existing firms can borrow and grow, the ability of emerging firms to act entrepreneurially, their willingness to invest in assets, and the ability to allocate their assets freely are all determining factors to economic growth. An examination of the levels of capital market development and economic growth in Asia with those in sub-Sahara Africa shows that India and China continue to add several hundred companies to their stock exchanges annually. The immediate benefit of the flourishing capital market activity in Asia is reflected in the sizeable increase in the momentum of private sector development. In contrast, the number of companies added by each of the major sub-Sahara Africa exchanges, other than South Africa, was generally fewer than ten (Ruecker, 2011).

Table 3.2 below shows a majority of respondent 62 (80.95%) agreeing while 2 respondents (2.38%) disagreeing and 14 respondents (16.67%) being neutral on the matter stock market establishment has advantages regarding in Support of transparent and efficient privatization process.

Table 3.2 Support for transparent and efficient privatization process

Q8	Freq.	Percent	Cum.
Agree	42	50.00	50.00
Disagree	2	2.38	52.38
Neutral	14	16.67	69.05
Strongly Agree	26	30.95	100.00
Total	84	100.00	

The appealing economic measures taken by the Ethiopia government to promoting private sector development is the privatization program that it has been working by establishing a privatization agency (Privatization and Public Enterprises Supervisory Agency). So far, the government is the major actor in the economy as it has monopolized or has significant market share on crucial sectors like sugar, telecom services, cement, beer factories and etc. Government institutions and agencies play a crucial role in the market. Recently, however, many state-owned companies have been privatized. As per (Teklehaimanot, 2014) the privatization agency since 1995, has privatized 287 enterprises including breweries. This is seen as a positive move surfacing an enabling ground for the private sector to play and have an influential role in the economy.

2. Increases liquidity which is linked to economic growth

Market liquidity is seminal to create ready and willing investors all the time since such market makes investment less risky and more attractive. This enables companies to enjoy permanent access to capital from investors and households as saving remains less attractive. Market liquidity is firmly associated with the availability of smooth and sophisticated exchange markets coupled with public awareness, investors protection and skillful and able intermediaries (Teklehaimanot, 2014).

Table 3.3 below shows 44 respondents (52.38%) agree and 30 respondents (35.71%) strongly agree giving a total remark of 74 (88.09%) agreement while the rest 6 respondents (7.14%) disagree, 2 respondents (2.38%) and 2 respondents (2.38%) were neutral. This implies the establishment of stock exchange market in Ethiopia will help the liquidity problem we are facing both in the private sector and government.

Table 3.3 Increase of liquidity which is linked to economic growth

Q2	Freq.	Percent	Cum.
Agree	44	52.38	52.38
Disagree	6	7.14	59.52
Neutral	2	2.38	61.90
Strongly Agree	30	35.71	97.62
Strongly Disagree	2	2.38	100.00
Total	84	100.00	

An increase in the number of firms and investors participating in exchanges generates liquidity or the volume of active trading. Liquidity has a proven relationship with economic growth. Recent studies have found that countries with a well-developed financial sector and a liquid capital market experience have faster rates of capital accumulation and greater productivity gains. As liquidity increases, firms gain increased assurance that they will be able to exit from longer-term investments they become more willing to make the permanent investments critical to development.

At the same time, local consumers are more willing to mobilize domestic savings. This process allows for a market-based system of allocating financial resources, whereby more resources are more efficiently distributed to the more productive and innovative firms. Capital market liquidity can be improved through reducing monetary policy, creating awareness, building confidence, potentially growing economy, reducing transaction barriers, and aligning of banks to support the market. Market makers serve as liquidity providers and increase trading volume in developed market.

3. Helps in mobilization of local savings and available resources, promotes efficient financial system, helps in supply of long-term funding and It will increase the source of capital available for investment

The development of capital market encompasses more than just foreign capital inflows to emerging markets. It is equally important the encouragement of local investors interest as a means of increasing the availability of investment resources within an economy. An increase in domestic investor interest originates from the availability of profitable options for saving within the local economy. In other words, the existence of incentives keeps money in float domestically. Formal and credible savings options, which include such instruments as pension plans, insurance policies, and mortgage markets, are key to generating necessary sources of financing within an economy and to allow more resources to be mobilized and efficiently allocated to various investments needed thereby serving to drive the growth process.

Table 3.4 below shows 40 respondents (47.67%) strongly agreeing, 38 respondents (45.24%) agreeing and the rest 6 respondents (7.14%) being neutral. This implies that majority 78 respondents (92.91%) agreeing on the establishment of capital market helps in mobilization of local savings and resources available for the betterment of the economy.

Table 3.4 Helps in mobilization of local savings and availability of resources

Q3	Freq.	Percent	Cum.
Agree	38	45.24	45.24
Neutral	6	7.14	52.38
Strongly Agree	40	47.62	100.00
Total	84	100.00	

Table 3.5 below shows a total of 80 respondents (95.23%) agreeing while the rest 4 respondents (4.76%) being neutral on the matter of stock market establishment advantage on increasing sources of capital for investment.

Table 3.5 It will increase the source of capital available for investment

Q11	Freq.	Percent	Cum.
Agree	28	33.33	33.33
Neutral	4	4.76	38.10
Strongly Agree	52	61.90	100.00
Total	84	100.00	

As per (The world bank, 2018) report on FDI inflows shows, supported by incentives and ongoing industrial parks development, are expected to boost the manufacturing sector. On the downside, the economy will remain vulnerable to the weak economic performance of key trading partners and rationing of foreign exchange. In countries, like Ethiopia where saving is low, FDI is an alternative means to improve investment. capital markets, when opened to foreign investments, increase financial integration by attracting foreign capital, which can lower the cost of capital for local firms and individuals and improve risk sharing across countries. It further improves market access and relieve credit constraints on small and medium-sized enterprises

Table 3.6 Promotes efficient financial system

Q9	Freq.	Percent	Cum.
Agree	44	52.38	52.38
Neutral	2	2.38	54.76
Strongly Agree	38	45.24	100.00
Total	84	100.00	

Table 3.6 above shows majority of the respondents 80 (97.62%) agreeing on establishment of capital market bringing efficient financial system while the rest 2 respondents (2.38%) being neutral on the matter. As per this, a more diverse financial system that includes capital markets alongside banking markets tends to be more stable and better able to absorb shocks. The development of local currency markets, by providing for safe assets in local currency, can enhance economic stability both directly by improving the ability of investors to manage exchange rate shocks but also indirectly enhancing the stability of the financial market; and also the discipline of

the stock market will improve the quality and disclosure of information that firms provide to markets and firm performance.

Table 3.7 below shows 68 respondents (80.96%) agreeing while 4 respondents (4.76%) disagreeing and 12 respondents (14.29%) being neutral on the matter. long-term funding like bond markets can act as a “spare tire” to bank finance in case of banking crises, thus helping to absorb the shock of bank distress and Equity markets provides portfolio diversification, enabling individual firms to engage in specialized production where bound to result in efficiency gains.

Table 3.7 Helps in supply of long-term funding

Q10	Freq.	Percent	Cum.
Agree	36	42.86	42.86
Disagree	4	4.76	47.62
Neutral	12	14.29	61.90
Strongly Agree	32	38.10	100.00
Total	84	100.00	

4. Enhances competition among banks and share companies

Table 3.8 below shows 56 respondents (66.67%) strongly agreeing and the rest 28 respondents (33.33%) agreeing leading to total remark of agreement on the matter of the advantage establishing stock exchange have in enhancing competition among banks and share companies in respect to the above mentioned item local savings mobilization and resources leading to a healthy competition among them and in reaching a wide area of customers.

Table 3.8 Enhances competition among banks and share companies

Q4	Freq.	Percent	Cum.
Agree	28	33.33	33.33
Strongly Agree	56	66.67	100.00
Total	84	100.00	

At the heart of local capital market development is the mobilization of domestic savings for a broader array of institutions with varied investment objectives. In comparison to other developing countries, Ethiopia does not mobilize its domestic capital effectively. The lack of long-term local currency savings instruments is a barrier to local investment of local capital. Sub-Saharan African financial activity can be characterized by the oligopolistic behavior of a few commercial banks (in several cases, government-owned). The absence of adequate competition is reflected in the large gap between deposit rates for savers, which tend to be very low, and interest rates for borrowers, which tend to be very high. Moreover, there is evidence that banks return on equity are higher in Africa than in other developing regions. Cultivating channels for firms to issue various debt instruments and raise equity, while simultaneously providing more long-term options for saving and asset management for investors, will benefit enlarging economies by increasing market efficiency and decreasing financing costs.

A report from (The world bank, 2018) shows, The number of bank branches in Ethiopia has more than tripled in the past five years, from 970 branches in 2011 to 3,187 branches in 2016. Access to banks remain concentrated in the capital city and other urban centers. Of the total nationwide, 34.4 percent of branches and more than 50 percent of ATMs are in Addis Ababa. However, there is a large untapped market of borrowers and savers who are not using formal financial services.

Figure 1.1 Capital share of the financial sector, 2015/16 (Birr, millions) (source: (The world bank, 2018))

5. Enhances the use of state of art technology and communication network across the country. Table 3.9 below shows the advantage of stock exchange market establishment it has on the enhancement and use of state of art technology as well as communication networks. As per this a total of 70 respondents (83.34%) agreeing while the rest 4 respondents (4.76%) disagree and 10 respondents (11.9%) being neutral on the matter. This shows that majority of the respondents believe the establishment of stock exchange market in Ethiopia will bring changes in the adoption of new technologies opening doors for state of art communication tools necessary for its development.

Table 3.9 Enhances the use of state of art technology and communication network across the country.

Q5	Freq.	Percent	Cum.
Agree	34	40.48	40.48
Disagree	4	4.76	45.24
Neutral	10	11.90	57.14
Strongly Agree	36	42.86	100.00
Total	84	100.00	

6. Leads to improved corporate governance

Capital market development necessitates the creation of a legal and regulatory framework incorporating investor protection mechanisms as well as increased transparency and information dissemination. The competition for capital on well-developed capital markets improves Corporate Governance, improves transparency, facilitates fair and transparent pricing, and boosts investor confidence. Various studies have shown a positive relationship between market-based governance and improvements in industry efficiency. Industry efficiency is important because it promotes economic growth thereby reducing poverty reduction.

Table 3.10 below shows majority 58 respondents (69.05%) are on agreement. As per this believing one way of improving corporate governance could be achieved by establishing a s regulated stock exchange market that oversees activities of listed companies by mandating certain rules and regulation to be followed. while the rest 26 respondents (30.95%) being neutral on the matter.

Table 3.10 Leads to improved corporate governance

Q6	Freq.	Percent	Cum.
Agree	38	45.24	45.24
Neutral	26	30.95	76.19
Strongly Agree	20	23.81	100.00
Total	84	100.00	

7. Aids in creation of sound economic policies and creates tools to conduct monetary policies

Table 3.11 below shows a total of 64 respondents (76.19%) in agreement while 6 respondents (7.14%) disagreeing and 14 respondents (16.67%) being neutral on the matter.

Table 3.11 Aids in creation of sound economic policies and creates tools to conduct monetary policies

Q7	Freq.	Percent	Cum.
Agree	48	57.14	57.14
Disagree	6	7.14	64.29
Neutral	14	16.67	80.95
Strongly Agree	16	19.05	100.00
Total	84	100.00	

The cost of autonomous borrowing is directly related to the economic circumstances and policies in a country. A government that implements good economic policies is compensated by lower borrowing costs on its autonomous bond issues, thus creating a market-based versus donor driven incentive to strengthen financial sectors. Furthermore, debt markets provide a tool for central banks to manage the money supply and control inflation.

8. Increases the number of financial products and underlying assets

Table 3.12 below shows majority of respondents 78 (92.86%) agreeing in the increase of financial products and underlying assets as advantages brought by the establishment of stock exchange market in Ethiopia.

Table 3.12 Increases the number of financial products and underlying assets

Q12	Freq.	Percent	Cum.
Agree	32	38.10	38.10
Neutral	6	7.14	45.24
Strongly Agree	46	54.76	100.00
Total	84	100.00	

Based on this a more diverse financial system that includes capital market alongside banking markets tends to be more stable and better able to absorb shocks. Bond finance provides healthy competition to bank loans and offers relatively cheap financing to large, reputable firms that have the scale and credentials to tap long-term capital markets. While on the other hand, Equity markets provide portfolio diversification, enabling individual firms to engage in specialized production is bound to result in efficiency gains. Despite this figure 1.2 shows the current composition of the capital market by instruments encompassing government bons, T-bills, corporate bonds and direct advances.

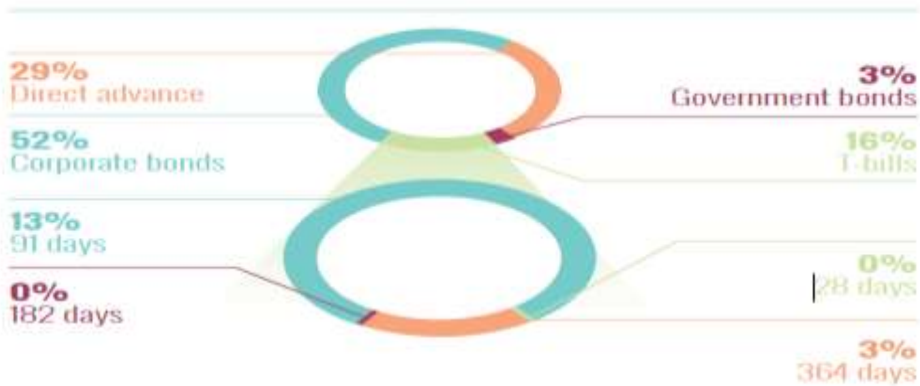

Figure 1.2 Composition of the capital market, by instrument (source: (The world bank, 2018))

9. **9.** Increases the shares of listed companies, government and corporate bonds and other securities.

Table 3.13 below shows a total of 74 respondents (88.1%) agreeing while 2 respondents (4.38%) disagreeing and 8 respondents (9.52%) being neutral on the matter. This implies if stock exchange market is established in Ethiopia the market share of different securities, corporate and government bonds and listed companies will increase in the country leading a variety of tradable instruments that could indicate competitive as well as growth of the financial system.

Table 3.13 Increases the shares of listed companies, government and corporate bonds and other securities.

Q13	Freq.	Percent	Cum.
Agree	34	40.48	40.48
Disagree	2	2.38	42.86
Neutral	8	9.52	52.38
Strongly Agree	40	47.62	100.00
Total	84	100.00	

10. It will decrease the level of corruption in the country as well as in the sector.

Table 3.14 below shows a total of 38 respondents (45.24%) in agreement while a total of 10 respondents (11.9%) disagreeing and 36 respondents (42.56%) being neutral on the matter.

Table 3.14 It will decrease the level of corruption in the country as well as in the sector.

Q14	Freq.	Percent	Cum.
Agree	20	23.81	23.81
Disagree	8	9.52	33.33
Neutral	36	42.86	76.19
Strongly Agree	18	21.43	97.62
Strongly Disagree	2	2.38	100.00
Total	84	100.00	

Ethiopia has ratified the UN Convention Against Corruption, and the African Union Convention on the Prevention and Combating of Corruption. According to (Transparency International, 2020) Ethiopia is ranked 96 out of 198 countries with a score of 37 out of 100 in 2019 which has improved from 126 out of 180 in 2008 index.

11. Increases the GDP of the country.

Ethiopia has been registering an enticing economic growth and it is one of the fastest growing in the world notwithstanding the global economic shock and financial crisis. As per (Gizachew, 2019) citations, the country has been growing at about 10.8% between 2005 and 2013, where the country has been enjoying sustained economic growth in the past years. Comparing the average yearly GDP growth of Rwanda, Kenya and Uganda for the same period of 8.2%, 4.8% and 6.7%, respectively; Ethiopia's yearly economic growth is the highest in the Sub Sahara African countries. This encourages foreign investors and the Ethiopian Diaspora to invest in diverse investment potentials including agriculture, manufacturing, tourism and others investment opportunities open for foreign investors. This increasing trend of investors prefer to establish large scale companies through issuing shares in an initial public offering to take the advantages of corporations. Based on the survey, these entrepreneurial and forward-looking investors of the Ethiopia Diaspora are perpetually putting a pressure on the government to establish a stock market.

Table 3.15 below shows majority of the respondents 72 (85.71%) in agreement while 4 respondents (4.76%) disagreeing and 8 respondents being neutral on the matter.

Table 3.15 Increases the GDP of the country.

Q15	Freq.	Percent	Cum.
Agree	44	52.38	52.38
Disagree	4	4.76	57.14
Neutral	8	9.52	66.67
Strongly Agree	28	33.33	100.00
Total	84	100.00	

4.4 Potential challenges that affect the establishment of stock exchange market in Ethiopia

Regarding Potential challenges that affect the establishment of stock exchange market in Ethiopia, the study assessed respondents using structured questionnaire using a five (5) scale Likert scale score consisting (strongly agree, agree, neutral, disagree and strongly disagree) by listing 15 conceivable factor that are linked to the objective of the study and the results of the respondents view and other relevant literatures on the area were discussed below.

1. Corruption and Low level /lack/of good governance

Table3.16 below shows majority 52 respondents (61.9%) in agreement and 10 respondents (11.9%) in disagreement while the rest 22 respondents (26.19%) being neutral on the matter corruption and good governance is potential challenge in establishment of stock exchange market in Ethiopia.

Table3.16 Corruption and lack of good governance

Q16	Freq.	Percent	Cum.
Agree	26	30.95	30.95
Disagree	4	4.76	35.71
Neutral	22	26.19	61.90
Strongly Agree	26	30.95	92.86
Strongly Disagree	6	7.14	100.00
Total	84	100.00	

According to (Gizachew, 2019)citation from Myint (2000), defines corruption as the use of public office for private gain, or in other words, use of official position, rank or status by an office bearer for his/her own personal benefit. Examples of corrupt practices include bribery, extortion, fraud, embezzlement, nepotism, cronyism, appropriation of public assets and property for private use, and influence peddling. Despite countless policy diagnoses, public campaigns to raise awareness, and institutional and legal reforms to improve public administration, different researches conducted over the past few decades shows that corruption continues to flourish and remained as a global challenge. A widespread predominance of corruption is considered as one of the direct challenges against nations overall growth.

The degree of corruption is comparatively lower in Ethiopia compared with regional countries, sub-Sharan Africa and the total sample average. But much more needs to be done to make the business environment free from corruption because a significant number (61.9%) of respondents perceive corruption as a major constraint. In the case of Ethiopia, a survey conducted by Alemayehu (2008) clearly indicates that a number of firms pay bribes either in kind or in cash to run their businesses. In relative terms, Ethiopia is an attractive place for domestic and foreign investors who are presumed to be active players in the financial market if established in Ethiopia. As a result, it is possible to deduce that the threat of corruption is less compared to the regional countries but a lot shall be done to improve the situation.

Table3.17 below shows if low level of corporate governance be a potential challenge to the establishment of stock exchange market in Ethiopia and a total of 54 respondents (64.29%) responded in agreement and 10 respondents (11.9%) in disagreement while the rest 20 respondents (23.81%) responding as being neutral to the matter.

Table3.17 Low level of corporate governance

Q17	Freq.	Percent	Cum.
Agree	40	47.62	47.62
Disagree	4	4.76	52.38
Neutral	20	23.81	76.19
Strongly Agree	14	16.67	92.86
Strongly Disagree	6	7.14	100.00
Total	84	100.00	

Good corporate governance is an important pillar of the market economy and it enhances investor confidence. The Ethiopian company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence and remuneration of board of directors in share companies. Besides, the draft Commercial Code has not yet been finalized. A strong and balanced board of directors is necessary as a supervising body for the executive management of a company with dispersed ownership.

The most important provision regarding share issuing and trading is the 1960 Commercial Code of Ethiopia. The Commercial Code is not up-to-date and has many grey areas. Addis Ababa Stock Exchange Rules and Regulations Manual (Volumes I and II) were prepared in 1999. However, it is at a working draft level and not up-to-date. There is no system of civil courts where securities cases can be prosecuted by a dedicated governmental authority. There are no specific training programs to educate prosecutors and judges on capital market regulation, including corporate governance (Ruecker, 2011).

The overall standard of corporate governance is low. More specifically, the legal and constitutional instruments do not provide an adequate regulative framework, key international conventions and standards are not ratified, investor and creditor protection laws are inadequate, and the absence of an organized capital market is a remarkable deficit and contributes to a lack in transparency. However, recent developments prove an emerging commitment to corporate governance standards and a corporate governance code is expected to be introduced in the near future.

2. Low awareness level, Lack of public trust of the society about stock exchange markets

Awareness about stock exchange markets affects the degree of participation in the markets. If the public is unaware about what stock markets are, the associated benefits and risks and what actions to take whenever some market incidents occur, potential market participants will diminish, hence creating a barrier to entry. Awareness could emanate from formal education, the media or experience gained through participating in the markets.

Table3.18 below shows a total of 58 respondents (69.05%) responding in agreement while 16 respondents (19.05%) disagreeing and the rest 10 respondents (11.90%) being neutral. This implies majority of the respondents believe there is a gap in the level of awareness in the society leading to more to be done so as to achieve the benefit of establishing stock exchange market brings.

Table3.18 Low awareness level of the society about stock exchange markets

Q18	Freq.	Percent	Cum.
Agree	22	26.19	26.19
Disagree	12	14.29	40.48
Neutral	10	11.90	52.38
Strongly Agree	36	42.86	95.24
Strongly Disagree	4	4.76	100.00
Total	84	100.00	

The lack of public awareness and trust with stock markets is the major obstacle to corporate participation in many African stock exchanges. As per the survey most of the Ethiopian public is not familiar with negotiable instruments and also, they do not know enough about the stock market. Generally, there is lack of information on the roles, functions and operations of the stock exchange. The public should be informed about benefits associated with the securities market and encouraged to participate in individual and collective investments. The government should also promote public education on investment.

Table3.19 below shows majority of respondents 52 (61.9%) in agreement of the is a lack/ low level of public trust in stocks/shares being traded and showing could be a factor as potential challenge in establishing the stock exchange market while on the other hand 14 respondents (16.67%) disagreeing and 18 respondents being neutral on the matter. This implies the establishment of the stock exchange market will defiantly bring back and strengthen the public trust as it is overseen and regulated by government authorities as per its transparent characteristics.

Table3.19 low/ Lack of public trust about stock exchange markets

Q19	Freq.	Percent	Cum.
Agree	28	33.33	33.33
Disagree	12	14.29	47.62
Neutral	18	21.43	69.05
Strongly Agree	24	28.57	97.62
Strongly Disagree	2	2.38	100.00
Total	84	100.00	

3. Inadequate communication network across the country.

Currently the use of state-of-the-art technology is becoming a must to do efficient business in the world. However, a survey conducted by Alemayehu (2008) cited on (Gizachew, 2019) clearly shows that Ethiopian firms technology usage is poor compared to regional countries. To be specific Ethiopian firms seem to be less inclined to use the World Wide Web, and are very limited in the use of licensed technology, both by regional and the total sample standards. The World Bank survey indicates that only about 4 % of firms have both ISO certification and employ licensed technology which is about threefold less than the sample and the region's average. This shows how weak Ethiopian firms are when it comes to use of technology and signify that it is one of the potential challenges of establishing financial markets especially stock exchange market.

Table3.20 below shows a total of 66 respondents (78.57%) in agreement and 10 respondents (11.9%) disagreeing while 8 respondents (9.52%) being neutral.

Table3.20 Inadequate communication network across the country.

Q20	Freq.	Percent	Cum.
Agree	40	47.62	47.62
Disagree	6	7.14	54.76
Neutral	8	9.52	64.29
Strongly Agree	26	30.95	95.24
Strongly Disagree	4	4.76	100.00
Total	84	100.00	

The current and only national telecom provider Ethio-telecom tele-density shows with 41,110,210 total consumer base, their subscribers share include mobile (voice and Data users on 2G, 3G & 4G), broadband (3G, 4G, EVDO), fixed broadband (ADSL, EPON, GPON, VSAT, Aironet) and narrowband (M2M, CDMA 1X, ADSL < 256kbs) (Ethiotelecom, 2020).

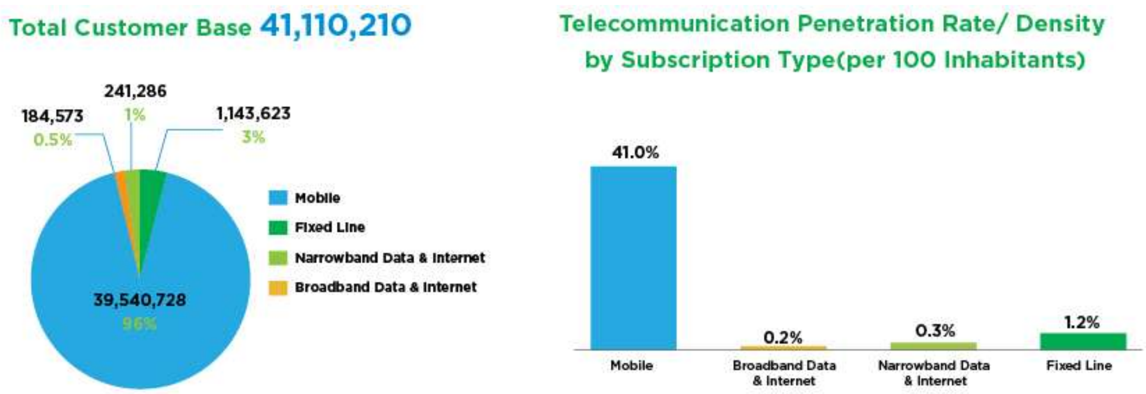

Figure 1.3 subscriber share and density source: (Ethiotelecom, 2020)

4. Willingness and initiation from the government in the establishment of stock exchange market in Ethiopia, Long bureaucratic processes

The government has the obligation to uphold the public good, providing measures against all kinds of threats. In order to this it has to have willingness and initiation first as per the establishment as well as continuation of a developed capital market. Despite the recent events and changes in government power office, there seems to be some level of initiations from the government to develop an institutionalized capital market in Ethiopia. Even if this is appreciable beginning by many stack holders, there needs to be a continuous ambition to see it through and this is what was reflected by the respondents below.

Table3.21 below shows 62 respondents (73.81%) in agreement while 4 respondents (4.76%) disagree and 18 respondents (21.43%) being neutral to the matter. This shows that willingness and initiation from the government could be taken under consideration in the establishment of stock exchange market and seen as potential challenge from the responses of the respondents.

Table3.21 Willingness and initiation from the government in the establishment of stock exchange market in Ethiopia.

Q21	Freq.	Percent	Cum.
Agree	30	35.71	35.71
Disagree	4	4.76	40.48
Neutral	18	21.43	61.90
Strongly Agree	32	38.10	100.00
Total	84	100.00	

Table3.22 below shows a total of 68 respondents (80.95%) are in agreement while 10 respondents (11.90%) disagreeing and 6 respondents (7.14%) being in neutral.

Table3.22 Long bureaucratic processes

Q29	Freq.	Percent	Cum.
Agree	28	33.33	33.33
Disagree	6	7.14	40.48
Neutral	10	11.90	52.38
Strongly Agree	40	47.62	100.00
Total	84	100.00	

Recently, NBE is on preparation to launch Secondary Market for government bonds to the public and issued Sovereign Eurobond to foreign investors after securing credit ratings by foreign credit rating agencies. The government had also issued a proclamation to establish a regulatory board to direct, certify and control public accountants' and auditors' work and further started to revise the commercial code of Ethiopia. Further to note, recently the government by its initiative has started to study the feasibility of establishing stock market in Ethiopia. The document is at a draft level for subsequent approval. Parallel to the study, NBE is prepared to issue corporate governance directive to all financial institutions (Mulatu, 2016).

5. Inadequate/absence/ of regulatory framework for sale of shares, regulation of capital market and related activities, legal framework, efficient and independent judicial system in the country

Though the importance, extent and form of regulating capital (securities) market is debatable, countries have been rethinking on their regulation particularly after the 2007 global financial crisis. Now days, market regulations are believed to improve market efficiency, protect investors and enhance public confidence. Information obtained from the study reveals, for countries like Ethiopia where systems and structures are not well cultivated, the availability of legal framework and supervisory body is essential for the establishment and development of capital market to ensure the macro and microeconomic stability (Teklehaimanot, 2014).

Table3.23 below shows majority 68 respondents (80.96%) are in agreement in case of inadequate/absence of regulatory framework as being potential challenge in the establishment of stock exchange market while 8 respondents (9.52%) disagreeing and the rest 8 respondents (9.52%) being neutral.

Table3.23 Inadequate/absence/ of regulatory framework for sale of shares

Q22	Freq.	Percent	Cum.
Agree	32	38.10	38.10
Disagree	8	9.52	47.62
Neutral	8	9.52	57.14
Strongly Agree	36	42.86	100.00
Total	84	100.00	

Ethiopia has no sufficient and up-to standard proclamations, legal and regulatory frameworks to regulate the exchange of securities, even issued in the initial public offering (primary market). (Teklehaimanot, 2014) argues that, under the proclamation no. 166 of 1960 commercial code, Book-II (Business organizations), Title-VI (companies limited by shares) describes only the functions of companies to raise capital through initial public offering. The code pinpoints the formations of partnerships, joint venture, private limited companies and share companies. It further details the provisions for the establishment of private limited and share companies. Articles 381-389 of the code give rights: to at least 10% holding shareholders to ask for investigation in the company's state of affairs if they believe it is going wrong (Art. 381); to be a member, to vote, and to challenge a decision of the company or to receive dividends and a share in a winding-up (Art. 389). Art. 333 also give shareholders the right to transfer unrestricted shares. The commercial registration and business licensing proclamation no. 686/2010 is a common proclamation for all business types registered in the Ministry of Trade.

Table3.24 below shows a total of 66 respondents (78.57%) in agreement and 10 respondents (11.9%) disagreeing while 8 respondents (9.52%) being neutral.

Table3.24 Inadequate/absence/ of regulation of capital market and related activities in the country

Q23	Freq.	Percent	Cum.
Agree	30	35.71	35.71
Disagree	10	11.90	47.62
Neutral	8	9.52	57.14
Strongly Agree	36	42.86	100.00
Total	84	100.00	

Article 12 of this proclamation (sub-articles 1-5) states only the general requirements for the establishment of share companies. The code and the proclamations fail to explain the subsequent transactions of the securities in an open market (secondary market), and ways of regulation. There are no criteria for listing and delisting of companies in the market. The decades' old code and other proclamations are inadequate to supervise and regulate the fraudulent activities of share issuing companies, to protect investors from market irregularities and off-balance sheet activities. They deprive shareholders the right to be informed and get relevant and timely information and restricts the free transfer of shares. Thus, share issuing companies are operating traditionally under unregulated market

Table3.25 below shows 56 respondents in total (66.67%) are in agreement while 8 respondents (9.52%) and 20 respondents (23.81) being neutral.

Table3.25 Underdeveloped legal framework

Q24	Freq.	Percent	Cum.
Agree	24	28.57	28.57
Disagree	4	4.76	33.33
Neutral	20	23.81	57.14
Strongly Agree	32	38.10	95.24
Strongly Disagree	4	4.76	100.00
Total	84	100.00	

In a constitutional order the justice system is obliged to perform its duties independently and within its horizon yet, in a manner which respects the powers of the legislative and the executive branches of the government. One of the major criticisms leveled against the justice system in Ethiopia is its lack of trustworthiness in the eyes of the public. The distrust is by and large attributed to the non-existence of fairness and transparency within the system. If it is to carry out its functions free from executive interference it should be able to have the necessary human resource, budget, the latest technology and an environment which allows judges, prosecutors, attorneys and other support staff to discharge their duties in compliance with the ethical standards of their respective professions.

Table3.26 below shows 58 respondents (69.05%) agreeing and 8 respondents (9.52%) disagreeing while 18 respondents being neutral to the matter. An independent judiciary works free from the interference of the political forces through proper enforcement of law. If the government officials twist the judiciary system to their advantage, one can say that the judiciary system is one-sided- both in the sense of being biased and in the sense of encompassing less than the whole. Hence, adequate and independent judiciary system fosters the economic, social and political development of the nation.

Table3.26 Lack of efficient and independent judicial system

Q25	Freq.	Percent	Cum.
Agree	34	40.48	40.48
Disagree	8	9.52	50.00
Neutral	18	21.43	71.43
Strongly Agree	24	28.57	100.00
Total	84	100.00	

6. **Low level /Lack/ of financial literacy, financial sector development, qualified and skilled human resource to exert stock market and related financial matters**

Table3.27 below shows a total of 52 respondents (61.9%) are in agreement while 18 respondents (21.43%) disagreeing and 14 respondents (16.67%) being neutral.

Table3.27 Lack of financial literacy

Q26	Freq.	Percent	Cum.
Agree	26	30.95	30.95
Disagree	14	16.67	47.62
Neutral	14	16.67	64.29
Strongly Agree	26	30.95	95.24
Strongly Disagree	4	4.76	100.00
Total	84	100.00	

Financial literacy is the ability to understand finance, and more specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through the understanding of finances; and it is the sound foundation for every capital market. As financial literacy seems to be rather poor in the country, there is a strong and immediate demand to support financial literacy as soon as possible. Financial literacy is understood to be a key element in market liquidity. It is therefore of utmost importance and treated as a core element of strategy and measures for the establishment of a capital market in the following chapter (Ruecker, 2011).

Table3.28 below shows a total of 70 respondents (83.34%) in agreement while 8 respondents (9.52%) disagreeing and 6 respondents (7.14%) being neutral.

Table3.28 Low level of financial sector development

Q27	Freq.	Percent	Cum.
Agree	54	64.29	64.29
Disagree	8	9.52	73.81
Neutral	6	7.14	80.95
Strongly Agree	16	19.05	100.00
Total	84	100.00	

Table3.29 below shows a total of 54 respondents (64.28%) agreeing while 18 respondents (21.43%) disagreeing and 12 respondents (14.29%) being neutral to the matter. Lack of such trained human resources as accountants, lawyers, financial analysts, economists, etc. could be a serious obstacle for running and managing securities markets, and security market activities in particular.

Table3.29 Lack /inadequate level of qualified and skilled human resource to exert stock market and related financial matters

Q30	Freq.	Percent	Cum.
Agree	30	35.71	35.71
Disagree	16	19.05	54.76
Neutral	12	14.29	69.05
Strongly Agree	24	28.57	97.62
Strongly Disagree	2	2.38	100.00
Total	84	100.00	

7. Macroeconomic development of the country

Macroeconomic stability is also a significant factor for the stock market development. With a higher macroeconomic stability, it is expected that more firms and investors can take part in the stock market. A corporate profitability can be influenced by changes in monetary, fiscal and exchange rate policies. Therefore, we assumed that countries which have a stable macroeconomic environment should experience stronger developments in their stock markets (Gizachew, 2019).

Table3.30 below shows a total of 68 respondents (80.95%) are in agreement while 10 respondents (11.90%) disagreeing and 6 respondents (7.14%) being in neutral.

Table3.30 Macroeconomic development of the country

Q28	Freq.	Percent	Cum.
Agree	38	45.24	45.24
Disagree	6	7.14	52.38
Neutral	10	11.90	64.29
Strongly Agree	30	35.71	100.00
Total	84	100.00	

The effect of macroeconomic stability on market capitalization is measured by the real interest rate and current inflation.as per (The world bank, 2018) report, the relaxation of monetary policy, measured by the growth of reserve money prior to the devaluation of the Birr in October 2017, has triggered inflationary pressures that have been repressed under allegedly consumer protection measures. Annual inflation as measured by the Consumer Price index CPI increased by 13.4 percent in January 2018 (as compared to January 2017). The monthly CPI decreased by 0.4 percent between December 2017 and January 2018.

The report further more elaborates that, the National Bank of Ethiopia (NBE) targets reserve money as the nominal anchor for monetary policy; broad money is used as an intermediate instrument. Reserve money growth decreased slightly to 22.7 % in June 2017 after an increase of 30.2 % in May 2017 (compared with 16.3% and 19.9 % growth, respectively, during the same months of last year). The growth in reserve money was mainly driven by increases in NBE’s net foreign assets (128 %) and net credit to the government (27.2 %). The lagged effect of expansive monetary policy has certainly contributed to the inflationary situation of nonfood items over the first quarter of FY18. The real deposit rate remained in negative territory and the real lending rate tends toward zero, following the rising overall inflation trend. With strong demand for bank credit, the maximum lending rate started to move upward, increasing the spread from the minimum deposit rate since last year’s third quarter. In October 2017, NBE increased interest rates on deposits from 5 to 7 % however, real deposit rates will remain negative.

CHAPTER FIVE: Conclusion and Recommendation

This chapter will present summary of the findings based on the results obtained from the respondents and the following conclusions as well as recommendations drawn. The objective of this study was to assess the challenges and prospects towards the establishment of stock exchange market in Ethiopia. Opinions on challenges and prospects of sample organizations were collected.

5.1 Conclusion

As per the survey and different reviewed literatures, the establishment of stock exchange market in Ethiopia will defiantly have a positive impact in the economy and advantageous for the country as a whole. With the current realities of the country economy there are many favorable opportunities that opens doors for the establishment of stock exchange market and also advantages that can be taped in to by establishing this system.

- ❖ Establishment of stock exchange market helps in private sector development. Access to and ease in movement of financial resources fundamentally influences the prospects for private sector growth in developing countries' economies. Market liquidity is seminal to create ready and willing investors all the time since such market makes investment less risky and more attractive. This implies the establishment of stock exchange market in Ethiopia will help the liquidity problem we are facing both in the private sector and government.
- ❖ An increase in the number of firms and investors participating in exchanges generates liquidity or the volume of active trading. Liquidity has a proven relationship with economic growth. A more diverse financial system that includes capital markets alongside banking markets tends to be more stable and better able to absorb shocks. In comparison to other developing countries, Ethiopia does not mobilize its domestic capital effectively. The lack of long-term local currency savings instruments is a barrier to local investment of local capital.
- ❖ The absence of adequate competition is reflected in the large gap between deposit rates for savers, which tend to be very low, and interest rates for borrowers, which tend to be very

high. However, there is a large untapped market of borrowers and savers who are not using formal financial services.

- The establishment of stock exchange market in Ethiopia will bring changes in the adoption of new technologies opening doors for state of art communication tools necessary for its development.
- Capital market development necessitates the creation of a legal and regulatory framework incorporating investor protection mechanisms as well as increased transparency and information dissemination. The competition for capital on well-developed capital markets improves Corporate Governance, improves transparency, facilitates fair and transparent pricing, and boosts investor confidence. Another way of improving corporate governance could be achieved by establishing a s regulated stock exchange market that oversees activities of listed companies by mandating certain rules and regulation to be followed.
- Based on this a more diverse financial system that includes capital market alongside banking markets tends to be more stable and better able to absorb shocks. Stock exchange market establishment in Ethiopia will increase the market share of different securities, corporate and government bonds and listed companies will increase in the country leading a variety of tradable instruments that could indicate competitive as well as growth of the financial system.

Despite the above-mentioned opportunities and advantages, stock market establishment poses some challenges in respect to legal, technological and social infrastructure that need more attention and to be done by the government as well us different stack holders. If the challenges unravelled systematically, bearing the fruit of its establishment in short periods is feasible.

- A widespread predominance of corruption is considered as one of the direct challenges against nations overall growth. The degree of corruption is comparatively lower in Ethiopia compared with regional countries, sub-Sharan Africa and the total sample average.
- The Ethiopian company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence and remuneration of board of directors in share companies. Besides, the draft Commercial Code has not yet been finalized.

- The Commercial Code is not up-to-date and has many grey areas. The overall standard of corporate governance is low. However, recent developments prove an emerging commitment to corporate governance standards and a corporate governance code is expected to be introduced in the near future.
- Awareness about stock exchange markets affects the degree of participation in the markets. Awareness could emanate from formal education, the media or experience gained through participating in the markets. There is a gap in the level of awareness in the society leading to more to be done so as to achieve the benefit of establishing stock exchange market brings.
- The establishment of the stock exchange market will defiantly bring back and strengthen the public trust as it is overseen and regulated by government authorities as per its transparent characteristics.
- Ethiopian firm's technology usage is poor compared to regional countries. Despite this and Ethio-telecom being the autonomous and sole provider of telecommunication network, attention should also be given in liberalization which currently the government is undertaking that is appreciable.
- Willingness and initiation from the government could be taken under consideration in the establishment of stock exchange market and seen as potential challenge from the responses of the respondents. Despite the recent events and changes in government power office, there seems to be some level of initiations from the government to develop an institutionalized capital market in Ethiopia. The government by its initiative has started to study the feasibility of establishing stock market in Ethiopia.
- Countries like Ethiopia where systems and structures are not well cultivated, the availability of legal framework and supervisory body is essential for the establishment and development of capital market to ensure the macro and microeconomic stability. The decades old code and other proclamations are inadequate to supervise and regulate the fraudulent activities of share issuing companies, to protect investors from market irregularities and off-balance sheet activities.
- Financial literacy seems to be rather poor in the country, there is a strong and immediate demand to support financial literacy as soon as possible. Financial literacy is understood to be a key element in market liquidity.

5.2 Recommendation

From the study findings and conclusion, the following recommendation were reflected by the researcher.

- The establishment of stock exchange market poses huge advantage for the rise and sustainable continuation of the economy so the researcher highly recommends the establishment.
- In order to create public awareness regarding capital market, the public should be informed about benefits associated with the securities market and encouraged to participate in individual and collective investments. The government should also promote public education on investment.
- The Government of Ethiopia should show its commitment in setting clear policies and strategies on capital markets further from the released drafts so as such markets could be one source of finance for the government's long-range projects.
- Improving the legal framework by enacting a stock market law, embodying the basic principles and policies in clear and unambiguous standard. The 1960's Commercial Code of Ethiopia should have to incorporate relevant provisions with regard to stock exchanges and corporate governance in line with internationally recognized corporate governance principles and be revised to reflect the current business dynamics.
- The role the media plays in promoting the stock exchange market is highly recognized. Therefore, the country's media should do more in giving more coverage for business and financial matters.
- Much more needs to be done by the government to make the business environment free from corruption by enforcing transparent policies, procedures and ease of entry as well as exit in business formation laws.

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APPENDIX

QUESTIONNAIRE

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE FOR THE SHARECOMPANY MANAGERS

Dear Respondent,

The aim of this questionnaire is to examine the challenges and prospects towards the establishment of stock exchange market in Ethiopia. The results of the study are expected to supply to the understanding on the influencing factors like institutional infrastructure frameworks, public awareness and trust in share investment, technological infrastructures and macro-economic levels in establishing stock exchange market in Ethiopia. I would like to assure you that the information you provide will be used only for the purpose of achieving academic award.

Thank you for your participation!!!

SECTION A

Background information (*Please use a tick in the space* ☑ *provided*)

1. Gender/Sex: Female ☐ Male ☐

2. Age (in years): less than 25 ☐ 25-29 ☐ 30-34 ☐ 35-39 ☐ 40-45 ☐ Above 45 ☐

3. Level of Education attained: Certificate ☐ Diploma ☐ Degree ☐ Masters ☐

SECTION B

Questions regarding challenges and prospects towards establishment of stock exchange

Below are lists of questioners relating to challenges and prospects towards establishment of stock exchange market in Ethiopia. Please indicate whether you agree or disagree with each statement by ticking (✓) on the spaces that specify your choice from the options that range from “strongly agree” to “strongly disagree”.

KEY

SA=Strongly agree A=Agree N= Neutral D= Disagree SD= Strongly Disagree

No	1) Please indicate the extent you agree or disagree of the Potential advantages of establishment of stock exchange market in Ethiopia	SA 5	A 4	N 3	D 2	SD 1
1	Promotes private sector development					
2	Increases liquidity which is linked to economic growth					
3	Helps in mobilization of local savings and availability of resources					
4	Enhances competition among banks and share companies					
5	Enhances the use of state of art technology and communication network across the country.					
6	Leads to improved corporate governance					
7	Aids in creation of sound economic policies and creates tools to conduct monetary policies					
8	Supports transparent and efficient privatization process					
9	Promotes efficient financial system					
10	Helps in supply of long-term funding					
11	It will increase the source of capital available for investment					
12	Increases the number of financial products and underlying assets.					
13	Increases the shares of listed companies, government and corporate bonds and other securities.					
14	It will decrease the level of corruption in the country as well as in the sector.					
15	Increases the GDP of the country.					

No.	**2) Please indicate the extent you agree or disagree of the Potential challenges that affect the establishment of stock exchange market in Ethiopia**	**SA 5**	**A 4**	**N 3**	**D 2**	**SD 1**
16	Corruption and lack of good governance					
17	Low level of corporate governance					
18	Low awareness level of the society about stock exchange markets					
19	/low/ Lack of public trust about stock exchange markets					
20	Inadequate communication network across the country.					
21	Willingness and initiation from the government in the establishment of stock exchange market in Ethiopia.					
22	Inadequate/absence/ of regulatory framework for sale of shares					
23	Inadequate/absence/ of regulation of capital market and related activities in the country					
24	Underdeveloped legal framework					
25	Lack of efficient and independent judicial system					
26	Lack of financial literacy					
27	Low level of financial sector development					
28	Macroeconomic development of the country					
29	Long bureaucratic processes					
30	Lack /inadequate/ level of qualified and skilled human resource to exert stock market and related financial matters					