



**An Assessment of Ethiopia's Law and Emerging Practice of Licensing  
Securities Exchanges**

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**A Thesis Submitted to School of Law Addis Ababa University in Partial  
Fulfillment of the Requirements for the Master of Law (LL.M) Degree in  
Business Law.**

**May 2025**

**Addis Ababa, Ethiopia**

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## **DECLARATION**

I, the undersigned, hereby declare that this is my original work, has not been presented for a degree in any other university or institution and that all sources of materials used for the thesis have been duly acknowledged.

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## **Acnkologments**

First and foremost, I give thanks to Almighty God, whose guidance and grace sustained me throughout this academic journey, and of course throughout my entire life. Without his presence, I am lost.

To my beloved wife, Azi, thank you for your unwavering support, encouragement, and patience. To my wonderful and loving son Nati (Keyo), and my sweet twin daughters, Hemen (Liyu) and Hewan (Mitu), your smiles and love gave me strength during the most challenging times.

I am deeply grateful to my advisor for his insightful guidance and critical feedback. To my classmates and especially to our class representative-Temesgen Memiru, your companionship, discussions, and laughter have enriched this academic experience. Special thanks also go to my colleagues and partners at 5A Law Firm LLP, whose support and flexibility made it possible for me to balance work and study effectively. I would also like to extend my appreciation for ECMA personnel.

Thank God.

## **List of Abbreviations**

ECMA – Ethiopian Capital Market Authority

ESX – Ethiopian Securities Exchange

SRO – Self-Regulatory Organization

IOSCO – International Organization of Securities Commissions

OECD – Organization for Economic Co-operation and Development

NBE – National Bank of Ethiopia

IMF – International Monetary Fund

ETB – Ethiopian Birr

PPP – Public-Private Partnership

SME – Small and Medium Enterprise

## **Abstract**

The establishment of a functional securities exchange system is a critical milestone in Ethiopia's transition toward a diversified and competitive financial sector. Ethiopia's Capital Market Proclamation No. 1248/2021 and Directive No. 1009/2024 mark a significant regulatory departure, introducing a dual licensing model that formally establishes the Ethiopian Securities Exchange (ESX) while also permitting private entrants.

This thesis examines the Ethiopian legal and regulatory framework governing the licensing of securities exchanges, with a specific focus on its conduciveness for private-sector-led capital market development. Guided by the central research question—whether the existing laws and emerging practice enable inclusive exchange formation—this study employs a doctrinal legal analysis supported by empirical insights from interviews with key stakeholders, including regulatory authorities, legal practitioners, and representatives of the private sector. The findings reveal that while Ethiopia's Capital Market Proclamation No. 1248/2021 and subsequent directives demonstrate a robust commitment to investor protection and market stability, they impose considerable legal, financial, and operational burdens that may deter private sector participation. High minimum capital requirements, expansive governance and technological standards, and significant regulatory discretion hinder accessibility and legal predictability.

Although regulatory authorities defend these measures as necessary for systemic resilience, the lack of clear procedural safeguards and limited interest by private actors suggest a regulatory environment more aligned with state-driven market consolidation than open competition. The study concludes that, without deliberate review to enhance transparency, reduce entry barriers, and encourage inclusive participation, Ethiopia's licensing regime risks constraining the very market dynamism it seeks to promote. Accordingly, the thesis proposes actionable recommendations aimed at fostering a more enabling, transparent, and proportionate regulatory environment for future capital market development.

## **Keywords**

Capital markets, securities exchange, Ethiopia, licensing regulation, private sector, Proclamation No. 1248/2021, ECMA, entry barriers

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## **Chapter One: Introduction**

### **1.1. Background**

The recent establishment of a securities exchange in Ethiopia signifies a crucial progress in the country's financial sector, transitioning from a predominantly bank-based financial system to a more diversified capital market structure. Ethiopia has relied on commercial banks as the main avenue for capital mobilization, which is characterized by inadequate participation in investment and limited access to long-term funding options.<sup>1</sup> The country briefly experienced a stock exchange system during the Imperial regime in 1960s until it is abolished by the socialist Dergue regime in the 1970s; and since post 1991 with a glimpse of market liberalization, the advocacy for the establishment of a structured securities exchange has been in the air.<sup>2</sup> Historically, Ethiopia's effort to establish a securities market have been hindered by numerous challenges, namely limited liquidity, regulatory inadequacies, weak investor protection, and insufficient institutional capacity.<sup>3</sup>

Recognizing this limitation, and with the objective to support the development of the national economy through mobilizing capital, promoting financial innovation and sharing of investment risks; the Ethiopian government enacted the Capital Market Proclamation No. 1248/2021, which provides the legal basis for the establishment of a structured securities market.<sup>4</sup> This was further strengthened by Directive No. 1009/2024, which provides the regulatory framework governing

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<sup>1</sup> Asrat Tessema, Prospects and Challenges for Developing Securities Markets in Ethiopia: An Analytical Review; African Development Review Journal Vol. 15, No 1 June 2019. P.8 Available at: <https://www.africabib.org/rec.php?RID=25571940X> . Accessed on January 13 2025.

<sup>2</sup> Solomon Abay Yimer, Financial Market Development, Policy and Regulation: The International Experience and Ethiopia's Need for Further Reform, PhD Thesis, Universiteit van Amsterdam 2011. P.128-135.

<sup>3</sup> Supra note 1.

<sup>4</sup> Capital Markets Proclamation No.1248/2021, Federal Negarit Gazette, 10 June2021, preamble.

securities exchange licensing and operations in Ethiopia.<sup>5</sup> The country's Home Grown Economic Reform Agenda recognizes the importance of strong regulatory framework and private sector participation for sustainable economic growth and overall financial market development.<sup>6</sup> It highlights the need for competitive and transparent financial markets to develop investor confidence and overall market competence.

The Ethiopia Securities Exchange (ESX), licensed by the Ethiopian Capital Market Authority (ECMA), is intended to provide a structured platform for trading of securities, facilitating capital creation and stimulating economic growth.<sup>7</sup> The development of a securities exchange is anticipated to expand liquidity, boost domestic and foreign investment. Moreover, the introduction of a formalized securities market aligns with Ethiopia's far-reaching financial sector liberalization initiatives and economic reform strategies.<sup>8</sup>

One of the distinctive features of Ethiopia's capital market legal framework is its dual licensing approach; while the proclamation declares the establishment of ESX under public-private partnership,<sup>9</sup> it also permits private entities to apply for licenses to establish additional securities exchanges.<sup>10</sup> This model, though promising in principle, raises important legal and institutional questions regarding competitive neutrality, licensing transparency, and market access fairness. Whether the current licensing framework facilitates private sector participation or reinforces state dominance remains an open debate.

Although the Ethiopian securities exchange (ESX) has been successfully established with majority ownership by private sector-accounting for 75% of its shareholding,<sup>11</sup> this fact alone

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<sup>5</sup> Directive on Licensing, Operation, and Supervision of Securities Exchanges, Derivative Exchanges, and the Over the counter market No. 1009/2024.

<sup>6</sup> FDRE, A Home Grown Economic Reform Agenda: A Pathway to Prosperity, Public Version, 2020.

<sup>7</sup> Ethiopian Securities Exchange (ESX) Press Release, 'Ethiopian Securities Exchange Launch Marks a New Era for Ethiopia' (10 January 2025) <https://fsdafira.org/press-release/ethiopian-securities-exchange-launch-marks-a-new-dawn-for-ethiopia/>, Accessed on January 13 2025.

<sup>8</sup> ID

<sup>9</sup> Supra note 4, Art. 31

<sup>10</sup> ID. Art. 32

<sup>11</sup> Ethiopian Securities Exchange (ESX), Annual Report 2024, <https://esx.et/about/esx-shareholders/> Accessed May 3, 2025.

does not conclusively demonstrate the overall licensing framework's conduciveness for private sector participation in establishing additional securities exchanges. ESX's establishment, as asserted by its board chairman, was uniquely facilitated by government led coordination, high profile investment mobilization, and strategic backing through Ethiopian Investment Holding,<sup>12</sup> this circumstance are not available for all private actors. Hence a comprehensive assessment of the conduciveness of Ethiopia's licensing laws and emerging practice remains both necessary and timely to ensure the sustainable development of an inclusive and competitive capital market. On the other hand, the regulatory framework of a securities exchanges should be designed with the view to maintain the core objectives of securities regulation; which is protecting investors, ensuring that markets are fair, efficient and transparent; and reducing overall systemic risk.<sup>13</sup> The ECMA serves as the primary regulatory body mandated to control licensing and compliance.<sup>14</sup> However, the Authority's institutional readiness, operational independence, and regulatory clarity are still evolving. The risk of potential bureaucratic inefficiency, unclear licensing criteria, and more importantly potential regulatory bias have been practical challenges in other regulatory sectors in the country.<sup>15</sup> Such uncertainties may discourage private investment and hinder overall market development.

Despite the critical role of licensing in shaping market outcomes, there is limited study that examines how the Ethiopian licensing law and emerging practice of securities exchanges impacts the establishment of securities exchanges and overall capital market development. Hence, this study seeks to bridge this gap by conducting an assessment of Ethiopia's law and emerging practice in the context of licensing securities exchanges. It explores whether the current licensing requirements and implementation environment enables the country's ambitions for a robust capital markets development.

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<sup>12</sup> Ibid

<sup>13</sup> International organization of Securities Commissions (IOSCO), 'Objectives and Principles of Securities Regulation' (2003).

<sup>14</sup> Supra note 4, Art. 3, 6(1)

<sup>15</sup> Kahsay Gebremedh Weldegebrail, Guarding the Guardian of Fair Market Competition in Ethiopia: Legal Gaps and Challenges ,(2019) 5 Mekelle U LJ 33. P. 61-63

## 1.2. Statement of the Problem

Capital market plays a significant role in mobilizing long term finance, enhancing investment efficiency, and fostering economic growth.<sup>16</sup> At the heart of any effective capital market lies a well-regulated securities exchange; and the licensing of such a structured securities exchange is a sophisticated process which requires a rigorous legal framework, institutional readiness, and an enabling economic environment.<sup>17</sup> A fair, efficient, and enabling licensing regime serves as a cornerstone for capital market development.

In 2021, Ethiopia enacted the Capital Market Proclamation No.1248/2021, which signifies an important policy shift towards formulating its capital market. This was followed by the issuance of Directive No. 1009/2024, which sets out licensing procedures for securities exchanges. While these legislative instruments proves substantial progress, questions remain as to whether the current licensing framework and its emerging implementation practices are conducive in building a competitive and investor friendly market environment.

The proclamation interestingly introduces a dual path licensing structure; it establishes the Ethiopian Securities Exchange (ESX) as a state-led entity and it also permits the private sector to apply for establishment of exchange licenses.<sup>18</sup> While this allows for market plurality, it also raises concerns about regulatory impartiality, market access, and overall competitiveness of the market. The establishment of ESX by law through government leadership and state led initiative raises a question on the licensing regime in terms of market access, licensing fairness and overall market competition for the private sector in order to participate in establishing securities exchange. If the licensing regime favors state led initiatives, the private sector participation may be stifled, undermining innovation and market depth. Lessons from other regulatory sectors of the country like the competition authority shows a potential risk of regulatory capture and vague licensing criteria which in turn erode investor confidence and healthy market competition.<sup>19</sup>

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<sup>16</sup> Adoms, F. U., Yua, H., Okaro, C. S., & Ogbonna, K. S. Capital Market and Economic Development: A Comparative Study of Three Sub-Saharan African Emerging Economies. (2020) American Journal of Industrial and Business Management, 10, 963-987. <https://doi.org/10.4236/ajibm.2020.105065>

<sup>17</sup> Bernard S Black, The Legal and Institutional Preconditions for Strong Securities Markets (2001) 48 UCLA Law Review. P. 783

<sup>18</sup> Supra note 10.

<sup>19</sup> Supra note 15.

It is established that, a licensing regime which boosts investor protection, and confidence; and which encourages competition and innovation positively impacts overall securities market development.<sup>20</sup> An effective and highly structured legal and institutional environment improves investors' confidence and contribute to the growth of capital markets.<sup>21</sup> Accordingly, the regulatory body needs to design a clear and efficient licensing process. A well-structured licensing regime should provide a fair and clear criteria for market entry, operational guidelines for securities exchanges, and mechanisms to ensure compliance with investor protection standards.<sup>22</sup>

The licensing laws should be equipped with clear and robust standards that enable private sector participation, investor protection; and also the licensing regime should encourage the adoption of technology and innovation. However, in many emerging markets, licensing frameworks are often characterized by bureaucratic inefficiencies, regulatory fragmentations, and unclear legal standards.<sup>23</sup> It is established that, without strong institutional independence and clear regulatory procedures, potential private entrants may face substantial uncertainty, potentially discouraging investments crucial for market growth. Ethiopia's licensing framework must also incorporate mechanisms to promote market participation, protect investors, and align with international best practices. In this regard, the IMF policy document emphasizes that capital markets flourish in stable and competitive economic environments with predictable regulatory policies, strong and independent legal institutions, and investor-friendly frameworks.<sup>24</sup>

As an emerging economy, Ethiopia faces similar risks. Lack of experience in the capital market, and absence of articulated standards on how licensing decisions are made, monitored and enforced remains a huge concern in the function of the capital market. On top of this, there is a

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<sup>20</sup> Supra note 17, P. 781

<sup>21</sup> Augusto de la Torre and Sergio L. Schmukler, Emerging capital markets and globalization: the Latin American experience, A copublication of Stanford Economics and Finance, an imprint of Stanford University Press, and the World Bank. (2007) p. 16

<sup>22</sup> Supra note 16.

<sup>23</sup> World Bank, Capital Markets Development: Causes, Effects, and Sequencing,(2019). p.16  
<https://documents.worldbank.org/en/publication/documentsreports/documentdetail/701021588343376548/Capital-Markets-Development-Causes-Effects-and-Sequencing>. Accessed January 10 2025.

<sup>24</sup> International Monetary Fund (IMF), Financial Stability and Capital Markets in Developing Economies (2023). P.21. <https://www.imf.org>. Accessed February 1 2025.

notable lack of scholarly study which assess Ethiopia's legal and institutional approach to securities exchange licensing. In particular, it remains unclear whether the current laws and emerging practices of licensing securities exchanges create an environment that is transparent, competitive, and conducive for establishing a well-developed capital market.

Hence, this research intends to fill the gap, by assessing Ethiopia's legal framework for licensing securities exchanges, identifying whether the existing laws and emerging licensing practices contribute to the overall development of the capital market. In doing so, the paper aims to come up with relevant recommendations for policymakers, regulators, and market participants.

### **1.3. Research Question**

- Are the Ethiopian law and emerging practice of licensing securities exchanges conducive for the market development?

### **1.4. Research Objectives**

#### **General objective**

- This research generally intends to assess the conduciveness of Ethiopia's laws and emerging practice for licensing of securities exchanges to foster the overall capital market development.

#### **Specific Objectives**

- To analyze the adequacy of the capital market proclamation No. 1248/2021 in creating a competitive securities market.
- To evaluate Ethiopia's emerging licensing practices.
- To identify challenges and opportunities in Ethiopia's nascent capital market ecosystem in relation with the licensing regime.
- To propose actionable reforms for fostering a sustainable and inclusive securities market in Ethiopia.

### **1.5. Research Methodology**

The study adopts a qualitative research approach using doctrinal legal analysis and empirical research to evaluate Ethiopia's legal and regulatory framework for licensing securities exchanges. The research relies on:

1. Doctrinal Legal Analysis: A critical review of Capital Market Proclamation No. 1248/2021, Directive No. 1009/2024, and other relevant laws, focusing on their effectiveness in fostering market development.
2. Empirical Research: Semi-structured interviews with key stakeholders, including Ethiopian Capital Market Authority (ECMA) officials, legal experts, market participants, and policymakers, to assess practical implementation challenges.

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

This study is limited to the legal framework and emerging practices concerning the licensing of securities exchanges in Ethiopia. It assesses the provisions and implementation of the Capital Market Proclamation No. 1248/2021 and Directive No. 1009/2024 in terms of licensing of securities exchanges. It does not extend to broader capital market operations, such as stock market performance, investor behavior, or financial market instruments beyond licensing and regulatory compliance. The empirical component of the study is also scoped to qualitative insights gathered from key stakeholders within Ethiopia, including regulators, legal experts, and financial sector actors. While international best practices are referenced for comparative purposes, the research does not conduct a full-scale comparative legal analysis.

### **1.7. Significance of the Study**

The study contributes to the legal and policy discourse on Ethiopia's capital market development by examining the effectiveness of the legal framework governing the licensing of securities exchanges. It is significant in the following ways:

**Policy Development:** Provides insights for policymakers and regulators to refine Ethiopia's securities exchange licensing process, ensuring legal clarity and efficiency.

**Investor Confidence:** Identifies regulatory gaps that, if addressed, could enhance market transparency and attract both domestic and foreign investors.

**Academic Contribution:** It will add to the body of legal literature on capital markets by offering a focused analysis of Ethiopia's licensing framework.

**Market Development:** Helps market participants understand the licensing process and its impact on capital market growth.

### **1.8. Limitations of the Study**

As a legal-empirical inquiry situated in a nascent capital market, this study faced several limitations. First, access to real-time and detailed data from the Ethiopian Capital Market Authority (ECMA) and no potential private applicants and the early stage of market development. Second, the absence of judicial precedents or case law related to securities exchange licensing in Ethiopia restricted the analysis to statutory interpretation. Third, while efforts were made to include diverse stakeholder voices, the number of available experts actively engaged in securities exchange licensing is currently small.

### **1.9. Organization of the Thesis**

The thesis is organized into five chapters:

- **Chapter One** introduces the study, outlines the background, statement of the problem, objectives, research questions, significance, scope, limitations, and methodology.
- **Chapter Two** reviews relevant theoretical, legal, and empirical literature, identifying conceptual frameworks, and the research gap.
- **Chapter Three** provides a critical analysis of Ethiopia's legal and institutional framework for licensing securities exchanges, focusing on the Proclamation and Directive.
- **Chapter Four** presents empirical findings on the emerging practices of securities exchange licensing, based on stakeholder interviews and thematic analysis.
- **Chapter Five** summarizes key findings, draws conclusions, and offers legal and policy recommendations to improve Ethiopia's licensing regime.

## **Chapter Two: Literature Review**

### **2.1.Introduction**

The development of securities exchanges, in addition to establishment of institutions, demands a sound legal and regulatory framework. Licensing securities exchanges, as a regulatory context, determines the efficiency, accessibility, and credibility of the overall capital market. The capital market proclamation No. 1248/2021 and Directive No. 1009/2024 shows Ethiopia's attempt to establish a formal structure for market operation, licensing, and regulation. This chapter assesses the academic, institutional, and regulatory literature surrounding securities exchange licensing, focusing on whether Ethiopia's laws and emerging practices are conducive to the development of a robust capital market.

In this chapter by using a combination of doctrinal, theoretical and a comparative approaches, the review evaluates both global normative frameworks (such as those developed by IOSCO and OECD) and relevant empirical studies. The review highly uses Ethiopian legal texts, international regulatory reports, and academic literatures. In doing so, the analysis provides methodological explanations, and then the thematic discussions are presented, and conclusion is forwarded.

### **2.2.Methods**

This literature review uses a qualitative and doctrinal analysis approach. Relevant academic literature is identified using keyword searches across database such as SSRN, JSTOR, Science Direct, and Hein online. Keywords include; 'securities exchange licensing,' 'capital market development in Ethiopia,' 'IOSCO regulation,' 'market entry regulation,' and 'licensing regimes.' The review refers academic articles, institutional publications of the World Bank, IMF, and OECD as well as Ethiopian legislations. These documents were selected if they addressed securities exchange licensing, legal infrastructure for capital markets, institutional capacity for regulation in developing countries, and comparative studies relevant to Ethiopia's context.

### 2.3.Theoretical and Comparative Perspective

There are different theoretical frameworks in law and economics in terms of regulating licensing of securities exchanges. One foundational distinction is between public interest and private interest theories of regulation.<sup>25</sup> From the public interest perspective, licensing is relevant to tackle market failure, ensure transparency, and protect investors; very importantly in situations where there is limited legal literacy or institutional maturity; and the private interest approach critiques, licensing regimes as tools for rent- seeking, incumbent protection, and state control of market access.<sup>26</sup> This contrast is relevant in terms of assessing Ethiopia's licensing regime as early market entry has been guided through a state supported entity (ESX), as this raises important question about competitive neutrality and regulatory capture. The economic theory proves that financial markets play a crucial role to the efficient allocation of resources; so this in terms of capital market context, emphasizes that effective licensing should balance market access with investor protection, transparency, and competition.<sup>27</sup> This is especially important for securities exchanges like Ethiopia, which is hoped to function as infrastructure for capital allocation and financial intermediation.

Ogus and Zhang forwards a comparative legal-economic perspective by distinguishing between East and West licensing models. In doing so they argued that, in East Asian systems, licensing is typically discretionary and used as a development policy tool, on the other hand in Western liberal economies, it is generally rule based with greater judicial oversight and clearer procedural safeguards.<sup>28</sup> They interestingly provide that, in developing countries licensing usually serves informal ends; like protecting elite interests rather than public interest objectives. This insight is relevant in assessing Ethiopia's licensing regime in terms of existence of clear and codified procedures for transparency, review or appeal in times of complaint.

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<sup>25</sup> Ogus, Anthony & Zhang, Qing, 2005. "Licensing Regimes east and west," *International Review of Law and Economics*, Elsevier, vol. 25(1), pages 124-142, March.

<sup>26</sup> ID.

<sup>27</sup> Avgouleas, Emiliios, *The New EC Financial Markets Legislation and the Emerging Regime for Capital Markets* (2005). *Yearbook of European Law* 2004, April 2005 , Available at SSRN: <https://ssrn.com/abstract=1132912>

<sup>28</sup> Supra note 25.

The institutional perspective of licensing exchanges is also elaborated by the work of Pirrong by modeling stock exchanges as self-interested certifiers of issuer quality.<sup>29</sup> Here he argues that, in both monopolistic and competitive contexts, exchanges have incentives to list weak issuers to maximize short term revenues in situations where licensing and oversight is weak. In a second best environment like Ethiopia, monopolistic exchanges like the ESX may benefit from the absence of external pressure to maintain certification integrity.

Solomon Abay, in his landmark dissertation, locates licensing within a broader policy and regulatory ecosystem, arguing that capital market cannot function without a clear regulatory structure that sets licensing preconditions, enforce ongoing obligation, and defines institutional roles.<sup>30</sup> He further contends that, licensing should not be reduced to simple bureaucratic process but must be linked with prudential, market conduct, and systemic stability regulations.

## **2.4.Key Themes in the Literature**

### **2.4.1. Licensing and Exchange Governance**

At the heart of the subjects in the literature under discussion; the role of licensing in establishing not only market access but also the governance structure of securities exchanges is highly relevant. The legitimacy, independence, and efficiency of the market is greatly shaped by the licensing framework. Accordingly, Pirrong argues that the ownership and governance form of an exchange i.e, whether not-for-profit, mutual, or for-profit, determines the type of rules it produces and the nature of its market participation.<sup>31</sup> Not-for-profit models tend to balance the diverse interests of different members through compromise, while the for-profit exchanges models prioritize operational efficiency and market responsiveness.<sup>32</sup> These insights are crucial for Ethiopia's ESX model, which is organized to operate as a hybrid public-private structure,

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<sup>29</sup> Craig Pirrong, Third Markets and the Second Best, (2000) SSRN Working Paper No 240803 <https://ssrn.com/abstract=240803>

<sup>30</sup> Supra note 2.

<sup>31</sup> Craig Pirrong, A Theory of Financial Exchange Organization. Journal of Law and Economics, 2000. [https://www.researchgate.net/publication/24101035\\_A\\_Theory\\_of\\_Financial\\_Exchange\\_Organization](https://www.researchgate.net/publication/24101035_A_Theory_of_Financial_Exchange_Organization) Accessed on April 11, 2025.

<sup>32</sup> ID

highlighting the importance of clear accountability and governance transparency requirements imposed by the licensing framework.

Selma Boussetta argues that exchanges, irrespective of their capital, usually acts to maximize listing revenues at the cost of market integrity, especially when licensing and regulatory oversight is weak.<sup>33</sup> She then proposes independent supervisory enforcement to separate market certification functions from profit motives. Similarly, Ogus and Zhang argues that discretionary licensing which is common in developing countries often empowers regulators to act without restraint, promoting favoritism or limiting competition.<sup>34</sup>

#### **2.4.2. International Standards**

International best practice in securities exchange regulation emphasizes transparency, procedural fairness, and regulatory neutrality. Accordingly, the International Organization of Securities Commissions (IOSCO), through its objectives and principles of securities regulation, calls for licensing frameworks that are transparent, consistent, and designed to protect investors while fostering market confidence.<sup>35</sup> These principles encourage the separation of regulatory oversight from commercial interests and underline the importance of risk based supervision. Ethiopia's current licensing system has to fully integrate these principles, especially with respect to procedural safeguards, review mechanisms, and transparency in decision making.

OECD upholds a market oriented approach to regulation that minimizes barriers to market entry and avoids excessive discretion.<sup>36</sup> Its guidance on competition and regulatory reform emphasizes that licensing regimes in developing economies often serve dual roles; both as gatekeepers and as tools for rent seeking. Hence, as Ethiopian legal framework empowered Ethiopian Capital

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<sup>33</sup> Boussetta, Selma, Competition in Exchanges and Reputational Concerns (August 17, 2017). Available at SSRN: <https://ssrn.com/abstract=3868879> or <http://dx.doi.org/10.2139/ssrn.3868879>

<sup>34</sup> Zhang, Qing & Ogus, Anthony, 2005. Licensing Procedures in Developing Countries: Should They Be Part of the Set-up Process?," Centre on Regulation and Competition (CRC) Working papers 30671, University of Manchester, Institute for Development Policy and Management (IDPM).

<sup>35</sup> International organization of Securities Commissions (IOSCO), 'Objectives and Principles of Securities Regulation' (2017). <https://www.iosco.org/library/pubdocs/pdf/ioscopd561.pdf> Accessed on March 11, 2025.

<sup>36</sup> OECD (2015), Policy Framework for Investment 2015 Edition, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264208667-en>

Market Authority (ECMA) to license exchanges, this framework needs to strengthen and maintain competitive neutrality and avoid possible regulatory capture and market distortion.

### **2.4.3. Institutional Infrastructure and Capacity Gaps**

The literature under discussion established that, securities exchange licensing should be understood in a broader institutional framework. A licensing framework, even though it looks modern on paper it has to be supported by the establishment of supportive institutions, technical infrastructure, and trained professionals. Accordingly, studies by Yartey and Adjasi emphasizes that investor protection, contract enforcement, and information transparency are decisive variables for capital market viability.<sup>37</sup> Here according to World Bank's Doing Business report, Ethiopia performs poorly as it ranks 159<sup>th</sup> globally.<sup>38</sup> The report shows institutional deficiencies that directly affect the overall capital market development. Routine business licensing which involve costly procedures, lack of investor protection and corporate transparency raises concerns about whether the ECMA's current licensing practices can ensure investor confidence and market competition.

In their recent study on Ethiopia's stock market readiness, Meskerem Waktola and Henok Biazin highlights the importance of institutional, macroeconomic, and policy factors in assessing Ethiopia's preparedness for a functional securities exchange.<sup>39</sup> They emphasize the importance of strong legal and institutional frameworks, effective private sector participation, and there by credible market development. Their study reveals a widespread public expectation for procedural fairness and access in the emerging capital market, coupled with the existence of deep concerns about non transparent and elite-driven market licensing.

In a similar study, Girma Gudde Jote confirms through stakeholder surveys that, most share transfers in Ethiopia still occurs informally, often brokered by unlicensed intermediaries at

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<sup>37</sup> Yartey C and Adjasi K., Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges (IMF Working Paper WP/07/209, 2007). Available at: <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Stock-Market-Development-in-Sub-Saharan-Africa-Critical-Issues-and-Challenges-21233> Accessed on April 4, 2025.

<sup>38</sup> World Bank Group, Doing Business 2020: Comparing Business Regulation in 190 Economies – Ethiopia Country Profile (World Bank 2020) <https://www.doingbusiness.org>.

<sup>39</sup> Biazin, Henok and Waktola, Meskerem, The prospect and challenge of establishing stock market in Ethiopia (November 1, 2022) Available at SSRN: <https://ssrn.com/abstract=4265067> or <http://dx.doi.org/10.2139/ssrn.4265067>

company headquarters, with widespread complaints of unfair pricing and illiquidity.<sup>40</sup> His findings affirms the need for the establishment of a licensing regime which ensures not just legal authorization, but also operational accessibility and market functionality for a formalized and strong capital market development.

Furthermore, in his comprehensive policy oriented study, Haileberhan Zena noted that public trust in the capital market remains fragile, and without broader financial infrastructure reform, licensing alone cannot catalyze inclusive capital market growth.<sup>41</sup> Hence, licensing should be sequenced alongside institution building with trained regulators, dispute resolution mechanisms, risk monitoring systems so as to ensure a licensing regime which translates into a functional market outcomes.

#### **2.4.4. Legal History and Regulatory Evolution in Ethiopia Capital Market**

Dagnachew Worku provides a structured legal analysis of Ethiopia's historical and regulatory attempts to develop a stock exchange, dividing into three distinct phases; the Imperial period, the Derg regime, and the EPRDF period.<sup>42</sup> While efforts like the Share Dealing Group of 1965 suggested nascent market development, the study shows that the absence of enabling legislation like laws on listing, disclosure, broker licensing, and supervisory oversight proves the then market as informal and exposed to market abuse. During the Derg period, nationalization policies disbanded institutional gains, and the EPRDF era shows a continuation of legal fragmentation and regulatory reluctance. The findings of the study proves the current licensing framework as necessary tool in the development of the capital market, despite its prolonged demand; and the challenges it still faces to build trust, infrastructure, and competitive neutrality. Mulunesh Gizachew's study, conducted prior to the enactment of proclamation No. 1248/2021 provides a critical historical analysis of the fundamental institutional and regulatory barriers

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<sup>40</sup> Girma Gudde Jote, Corporate Ownership Transfer: The Role of Stock Market in Ethiopia, (2023) 3(3) African Journal of Commercial Studies 135 <https://doi.org/10.59413/ajocs/v3.i3.1>

<sup>41</sup> Haileberhan Zena, Analysis of the Need for Stock Market in Ethiopia, (2021) 13(2) International Journal of Economics and Finance 84 <https://doi.org/10.5539/ijef.v13n2p84>

<sup>42</sup> Dagnachew Worku Gashu, Legal Aspect of the Development of Stock Exchange in Ethiopia, Journal of Culture, Society and Development, 2017, Vol 32. <https://iiste.org/Journals/index.php/JCSD/article/download/37724/38805>. Accessed April 8, 2025.

Ethiopia faced in establishing a securities market.<sup>43</sup> Her study identifies core deficiencies such as inadequate financial reporting standards, weak auditing mechanisms, and limited institutional capacity- factors that affect participation of the private sector in the securities exchange. With this context, her study is important in evaluating the current licensing regime's requirement for establishing securities exchange.

In his insightful and Ethiopian specific academic article, Jetu Edosa Chewaka outlines the historical evolution of Ethiopia's stock trading ecosystem, from the Addis Ababa Share Dealing Group under the Imperial regime to the unregulated OTC share trading market under the post 1991 system.<sup>44</sup> He critiques the lack of institutional continuity and the country's reluctance to support stock development, despite rising public demand. The study identified a pressing need for a structured licensing regime that governs exchange formation, sets listing rules, prohibits market manipulation, and ensure investor protection. Hence, his work provides a crucial reference point for assessing whether the current licensing legal framework represents a meaningful departure from the history under discussion.

One of the earliest and most authoritative calls for a regulated securities exchange in Ethiopia comes from Solomon Abay, whose 2011 doctoral dissertation laid the intellectual groundwork for later reforms. His study emphasized the importance of creating a formal exchange governed by licensing rules that promote transparency, and market efficiency. Drawing on IOSCO principles and extensive comparative assessment, the study proposed that any future licensing system to be built on principles of transparency, institutional independence, predictable rule making, and also aligning to the regulatory frameworks of the country's other financial institutions.<sup>45</sup> In light of his findings, it is critical to assess whether Ethiopia's current legal instrument and emerging practice of licensing securities exchanges have realized the intended reforms.

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<sup>43</sup> Mulunesh Gizachew, *Prospects and Challenges of Establishing Stock Market in Ethiopia*, A Thesis Submitted In Partial Fulfillment for the Award of Master in Accounting and Finance. Addis Ababa University, February, 2019.

<sup>44</sup> Jetu Edosa Chewaka, *Legal Aspects of Stock Market Development in Ethiopia: Comments on Challenges and Prospects*, 2014, *Mizan Law Review* Vol 8, No 2 2014.

<sup>45</sup> *Supra* note 2.

#### **2.4.5. Empirical Insights from Ethiopian Stakeholders**

Recent empirical studies shows insights about how Ethiopia's business community, regulatory institutions, and stakeholders perceive the establishment of a securities exchange. The study by Girma Gudde through a survey of shareholders and company managers, found that over 76% of respondents faced difficulties in buying or selling shares, citing informal trading, unfair pricing, and lack of intermediaries.<sup>46</sup> Despite these challenges, 100% of participants agreed on the necessity of establishing a stock market, this indicates a strong demand for a competitive, accessible, and transparent exchange.

Similarly, a study by Meskerem Waktola and Henok Biazin, based on stakeholder interviews with representatives from the National Bank of Ethiopia and Chamber of Commerce, proves widespread skepticism regarding establishment of a well-structured stock market; and they warned for a functional stock exchange the licensing framework to be supported by systemic institutional reform.

Haileberhan Zena, provides an empirical depth by applying financial structure and life cycle models to show why Ethiopia's private sector needs alternative sources of long term capital.<sup>47</sup> His analysis highlights the need for equity financing than the lending capacities of banks. His work support the argument that licensing regime must facilitate access to market entry for different financial actors.

#### **2.4.6. Conclusion**

The literature review has examined the global and Ethiopian scholarly and institutional perspectives on the licensing of securities exchanges. It is shown that licensing is an important element in establishing market infrastructure, and also its legal design and institutional context highly impacts the overall capital market development. Theoretical literature from Ogus and Zhang's analysis of discretionary licensing to Pirrong and Boussetta's game theoretic insights; highlighted that the tension between regulatory discretion and market efficiency.

Ethiopia's recent legal reforms, particularly the Capital Market proclamation No. 1248/2021 and directive No. 1009/2024, proves an important step towards establishing a structured capital

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<sup>46</sup> Supra note 38.

<sup>47</sup> Supra note 39.

market. Be this as it may, the literature shows that besides licensing, institutional readiness is also important for establishing a viable capital market. Empirical studies shows the existence of skepticism about the state centric approach of the ESX. The need for public accountability in licensing and transparent procedural safeguards for market entry are presented as important factors to be addressed in the licensing framework in order to avoid economic exclusion and regulatory capture.

## **Chapter Three: Doctrinal Analysis of the Legal and Institutional Framework in Ethiopia**

### **3.1. Introduction**

A coherent and functional legal framework is indispensable for the establishment and operation of a credible capital market system. In Ethiopia, the enactment of the Capital Market Proclamation No. 1248/2021 and the issuance of Directive No. 1009/2024 represent fundamental steps towards this goal. This chapter undertakes a comprehensive doctrinal analysis of Ethiopia's legal and regulatory framework governing the licensing and supervision of securities exchanges. The analysis focuses on four key legal instruments: the Capital Market Proclamation No. 1248/2021, Directive No. 1009/2024 on Licensing and Supervision of Securities Exchanges, Directive No. 996/2024 on Licensing Fees, and Directive No.1031/2024 on Recognition and Supervision of Self-Regulatory Organizations (SROs). Accordingly, the chapter evaluates whether the structure, criteria, and procedural mechanisms of the existing regime facilitate or hinder the entry and operation of private entities in the securities exchange landscape.

### **3.2. Analysis of the Capital Market Proclamation No. 1248/2021**

#### **3.2.1. Introduction and Legal Context**

The Capital Market Proclamation lays Ethiopia's statutory foundation for securities market development. It was enacted with the objective of protecting investors, reducing systemic risk, promoting financial innovation, deepening investment channels, and mobilizing capital through a legally regulated securities exchange system.<sup>48</sup> The Proclamation establishes the Capital Market Authority as an autonomous Federal Government Regulatory Authority<sup>49</sup>, and empowers the authority to license and supervise securities exchanges.<sup>50</sup> Despite its ambitious objectives, questions remain whether this legislative framework sufficiently facilitates private sector participation in establishing securities exchanges.

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<sup>48</sup> Supra note 4, Article 5.

<sup>49</sup> Ibid Article 3(1)

<sup>50</sup> ID Articles 6, 31-35

### **3.2.2. Core Licensing Framework**

Article 31 (5) of the proclamation empowers ECMA to issue license for securities exchanges. This provision is very brief and procedural in that it delegates critical regulatory details to subsequent directives. This, as a matter of principle, raises rule of law concerns related to legal certainty, predictability, and transparency for the private investors as they need to clearly understand licensing requirements from the outset.

Article 32 gives the ECMA to license additional securities exchange if they meet sound organizational structure, adequate capital, transparent operational mechanisms, and fit and proper criteria. However, this provision although it specifies general conditions for licensing it does not define the criteria- what constitutes minimum capital requirements and more importantly it does not provide the specific organizational requirements necessary for compliance. Such ambiguity grants extensive discretionary power to ECMA, which potentially compromise the transparency and predictability of the licensing process. The provision also does not express a policy commitment to promote market competition.

The proclamation under articles 33-35 deals with operational requirements and grounds for revocation. Though these provisions provide for due process, ECMA still retains broad discretion, especially regarding revocation based on public interest grounds; which is a vague discretionary clause that may discourage private sector investment due to legal uncertainty.

### **3.2.3. Regulatory Approach: Centralized Vs Enabling**

While the proclamation introduces investor protective mechanisms, including the establishment of ECMA, recognition of SROs and Surveillance powers; the legal model remains highly centralized. As evidenced from the proclamation's preamble, the aim is to establish a market characterized by fairness, integrity, and efficiency, by way of applying a rigorous regulatory framework to protect investors. However, in doing so the proclamation imposes substantial compliance burdens by way of extensive oversight and surveillance obligations. While investor protection and control of possible systemic risk within the market is very crucial, the proclamation highly favors centralized regulatory model, which crates unbalanced administrative and operational burdens. This regulatory model is mainly against international best practices

advocated by IOSCO, which emphasizes proportionality in licensing and compliance structures.<sup>51</sup>

Hence, by way of conclusion, the Ethiopian licensing regime, while it lays a strong foundation for state-driven market formation, and strong from protective perspective; it still shows structural and doctrinal shortcomings in facilitating private sector led exchange development.

### **3.3. Analysis of Directive No. 1009/2024**

#### **3.3.1. Overview and Purpose of the Directive**

Enacted pursuant to Article 108 (2) of Proclamation No. 1248/2021, Directive No. 1009/2024 details licensing conditions, including operational, governance, capital, and technological requirements for a securities exchange. Its explicit objectives include safeguarding investor interests, ensuring market integrity, and fostering orderly, fair, efficient, and transparent markets.<sup>52</sup> The directive is foundational in operationalizing licensing process and regulatory oversight of securities exchanges in the country. It attempts to clarify and expand upon the proclamation, filling gaps left by the broader legal framework.

#### **3.3.2. Application and Licensing Requirements**

The directive sets a comprehensive documentation and procedural demands for licensing application, including details on corporate structure, operational plans, governance frameworks, and financial capabilities.<sup>53</sup> Specifically, Article 5 mandates detailed submissions of corporate and organizational data, proposed management structures, and forward-looking operational plans. These requirements, though detailed, significantly increase the administrative burden placed on applicants, particularly private sector entrants. The extensive nature of these prerequisites risks creating barriers to entry for smaller private entities lacking substantial

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<sup>51</sup> The Board of the International Organization of Securities Commissions, *Evolution in the Operation, Governance and Business Models of Exchanges: Regulatory Implications and Good Practices*, 2024. Available on <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD779.pdf>. Accessed April 16, 2025.

<sup>52</sup> Supra note 5 preamble

<sup>53</sup> Id Article 4-7

financial or administrative resources. Another interesting specific provision worth discussing is the condition placed under Article 6(5) of the directive. Under this provision, the Authority has a huge discretion to license or deny a securities exchange despite it meets the whole requirement enshrined under the directive; just based on the Authority's assessment of the development of the market, its regulatory capacity and furtherance of its objectives under Article 5 of the proclamation. This provision clearly shows the licensing law under discussion, deliberately placed a barrier to the establishment of additional securities exchanges by the private sector. And this surly limits competitiveness within the market, and in turn hinders the development of the overall capital market.

### **3.3.3. Minimum Capital Requirements**

Article 13 of the directive stipulates a minimum paid up capital requirement of 500 million Ethiopian Birr, which is a significant entry barrier, especially for domestic private actors. Although capital adequacy is essential for risk mitigation and investor protection, the high threshold may disproportionately disadvantage local private sector participants, undermining inclusivity and potentially limiting completion. The directive does provide room for periodic adjustment of this minimum capital requirement<sup>54</sup>, yet the initial high threshold itself might still impede early stage market development.

### **3.3.4. Governance and Management Standards**

Governance standards set forth in the directive<sup>55</sup>, including requirements on board composition, management qualification, risk, and compliance oversight are demanding. Article 17, for instance, empowers the ECMA to veto board members lacking relevant expertise or integrity. Here, while high governance standards are commendable from the perspective of regulatory prudence, these strict requirements might again arbitrarily impact smaller, newly established private sector entities that may struggle to recruit and retain personnel meeting ECMA's high thresholds.

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<sup>54</sup> Supra note 5 Article 13(2)

<sup>55</sup> Ibid Article 16-20

### **3.3.5. Technological and Operational Capabilities**

The directive extensively mandates operational and technological infrastructure standards designed to maintain orderly trading, manage market volatility, and ensure system reliability.<sup>56</sup> These technological standards, such as system capacities to handle peak message volumes, automated trade halting mechanisms, and strong continuity frameworks are crucial in safeguarding market integrity. However, the costs associated with implementing such sophisticated systems is so high that, it creates considerable barriers for smaller private sector exchanges potentially deterring their establishment or operation.

### **3.3.6. Oversight of Trading Practices and Surveillance**

Provisions for monitoring, surveillance, and ongoing compliance obligations underline ECMA's proactive regulatory stance.<sup>57</sup> Article 52 for instance, obliges exchanges to maintain continuous surveillance over their markets and members. It is undeniable that these standards are vital for market stability and investor confidence, the directive's rigorous compliance requirements might impose significant ongoing operational burdens that nascent private exchanges could not meet sustainably.

By way of conclusion, though the directive is rigorously structured to ensure investor protection and market integrity, it presents significant challenges regarding enabling broad based private sector participation in establishing securities exchanges. Key issues identified include prohibitively high capital requirement, stringent governance and technological standards, and extensive administrative obligations. While these provisions reflect international regulatory frameworks emphasizing strong market infrastructure<sup>58</sup>, they lack proportionality designed to Ethiopia's nascent capital market environment.

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<sup>56</sup> Ibid Article 24-32

<sup>57</sup> Ibid Article 52-55

<sup>58</sup> Supra note 7

### **3.4. Analysis of ECMA Fee Directive No. 996/2024**

#### **3.4.1. Legal Basis and Purpose**

Directive No. 996/2024 is issued by ECMA, it establishes the fee structure applicable to various participants within Ethiopia's capital market, including securities exchanges, market intermediaries, and other regulated entities.<sup>59</sup> The directive aims to provide a clear framework for the financial obligations of market participants, thereby ensuring transparency and consistency in the market's operational costs.

The directive stipulates specific fees for the application and licensing processes of various market participants. For instance, entities seeking to establish a securities exchange are required to pay a substantial application and licensing fee.<sup>60</sup> These fees are designed to cover the administrative costs associated with the evaluation and approval process conducted by ECMA. Besides the application and licensing fees, licensed exchanges are also subjected to annual license renewal fee of 1% of its gross revenue.<sup>61</sup>

#### **3.4.2. Impact on Private Sector Participants**

The fee structure highlighted above shows significant financial obligations for private entities seeking to enter or operate within Ethiopia's capital market. The substantial application fee (500,000.00 Birr) and licensing fee (1,500,000.00) for a securities exchange may deter smaller domestic firms or startups from participating, thereby limiting market diversity and innovation.

Generally, Directive No. 996/2024 establishes a comprehensive fee framework for Ethiopia's capital market participants. While it aims to ensure transparency and fund regulatory activities, the current fee structure may pose challenges to private sector participation, particularly for smaller entities.

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<sup>59</sup> The Capital Market Authority's Fee Directive No. 996/2024

<sup>60</sup> Ibid Article 9, 10

<sup>61</sup> ID Article 11

### **3.5. Analysis of Directive No. 1031/2024 on Recognition and Supervision of Self-Regulatory Organizations (SROs)**

#### **3.5.1. Purpose of the Directive**

Issued by ECMA, Directive No. 1031/2024<sup>62</sup>, provides the regulatory foundation for the recognition and supervision of Self-Regulatory Organizations within Ethiopia's capital market framework. The directive seeks to ensure that SROs operate effectively, independently, and transparently, maintaining high standards of governance, regulatory compliance, and investor protection.

#### **3.5.2. Recognition Requirements and Procedures**

The Directive outlines rigorous procedures and extensive documentation required for SRO recognition. Article 6 enumerates specific recognition requirements, demanding substantial evidence regarding applicants' governance structures, financial capabilities, and compliance policies, technological infrastructure, and qualified personnel. Such detailed requirements, while in line with international standards in securing market integrity, could be potentially worrying for the private sector.

Article 7 of the directive explicitly refers to compliance of the fee directive, and also under Article 10 there is additional fee which will be paid if the application is accepted as a recognition fee; all this reinforces the cumulative financial barriers discussed above. Hence, the strict financial obligation combined with the high capital and fee requirements, might unduly limit participation from the private sector.

#### **3.5.3. Governance and Independence Standards**

Article 11- 17 provides broad governance requirements aimed at ensuring SRO independence, accountability, and effectiveness. Article 11 requires a clear separation between regulatory function and commercial activities, mandating separate personnel and dedicated use of regulatory fees for oversight purpose only. Article 16 imposes strict board composition requirements, including independent directors. All these governance standards demands substantial administrative and organizational resources, which will potentially limit the private sector to establish or sustain operations as SRO.

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<sup>62</sup> Recognition and Supervision of Self-Regulatory Organizations Directive Number 1031/2024

The Directive mandates strict compliance obligations, detailed reporting requirements, internal controls, and systemic risk management frameworks for recognized SROs. Accordingly, SROs are required to appoint a chief compliance officer responsible for rigorous adherence to the Directive, ECMA regulation, and other applicable laws.<sup>63</sup> This requirement for continued operational oversight and substantial compliance costs, might potentially impact smaller private sectors.

Generally, Directive No. 1031/2024 provides a robust regulatory framework to ensure high standards of market integrity. On the other hand, its strict requirements poses considerable barriers for the private sector involvement in the capital market.

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<sup>63</sup> Ibid Article 18

### **3.6. Conclusion**

This chapter examined Ethiopia's legal and regulatory framework governing the licensing and supervision of securities exchanges, focusing on the assessment of its conduciveness for private sector participation and capital market development. Accordingly, from a doctrinal analysis of the Capital Market Proclamation No. 1248/2021 and related directives, namely Directive No. 1009/2024 on Licensing and Supervision of Securities Exchanges, Directive No. 996/2024 on Licensing Fees, and Directive No. 1031/2024 on Self-Regulatory Organizations (SROs), an important conclusion can be drawn.

While the regulatory framework establishes a comprehensive and protective regime aimed at promoting market integrity, investor confidence and systemic stability; the legal framework presents huge structural and operational challenges measured from the perspective of the private sector entry and competition within the overall capital market. The licensing regime is characterized by high entry thresholds, such as 500 million minimum capital requirement, strong governance and technological standards, extensive administrative obligations, and heavy regulatory discretion in the licensing process.

Similarly, the licensing fee regime and the regulatory standards on SROs makes market entry very difficult for the private sector. Hence, it can be said that, the legal instruments analyzed above proves a framework which is highly controlled, and systematically prevent the private sector led securities exchange development.

In conclusion, while Ethiopia's licensing laws and regulatory approach shows preference in safeguarding market stability and integrity, they lack proportionality and flexibility required for a nascent capital market development. Although the regulatory directives provide ECMA some discretionary authority to suspend certain licensing requirements based on market development and subject to Board approval, it remains discretionary and procedurally undefined. There is no clear or objective criteria which guides when and how such suspension would be applied.

## **Chapter Four: presentation and Analysis of Findings**

### **4.1. Introduction**

This chapter presents and analyzes the findings derived from semi-structured interviews conducted with key players in Ethiopia's capital market. The objective is to assess the conduciveness of the Ethiopian law and emerging regulatory framework for the licensing of securities exchanges, with a particular focus on enabling private-sector participation. Drawing upon doctrinal analysis and preliminary qualitative data, the chapter examines the clarity, accessibility, and implementation of the licensing framework.

Although the legal regime established under the Capital Market Proclamation No. 1243/2021 and associated directives is now operational, the practical emergence of multiple securities exchanges remains nascent. Semi-structured interviews with regulatory officials, market operators, and private sector have been conducted to just capture perceptions of the legal environment and anticipated challenges. The findings are thematically organized to reflect both the strengths and limitations of the current framework in promoting a private sector led capital market ecosystem.

### **4.2. Summary of Doctrinal Analysis**

The doctrinal review under chapter three has critically examined and concluded that while Ethiopia's regulatory framework governing the licensing of securities exchanges is structured to promote investor protection and market integrity, it imposes significant barriers to private sector participation in establishing additional securities exchanges. Key findings include the high minimum paid-up capital requirement of ETB 500 million, extensive governance and technological demands, significant regulatory discretion, and a lack of proportional licensing options tailored for smaller or emerging market participants. While the establishment of the Ethiopian Securities Exchange (ESX) with majority private-sector ownership is a positive milestone, the broader legal and regulatory framework presents notable barriers to entry for independent private actors without strategic facilitation or governmental backing.

### **4.3. Presentation of Empirical Findings**

The following section presents and analyze responses thematically across key areas: licensing clarity, capital requirements, regulatory transparency, private sector participation, and flexibility in the regulatory framework.

### **Clarity of Legal Requirements**

- Participants from ECMA, particularly Ms. Hanna Tedla Teshome and Ms. Elsabet Getachew, emphasized that the directive and proclamation are designed with clear, internationally recognizable standards. The term 'fit and proper' was noted as standard language, and the delegation of capital thresholds to the directive was explained as a means to enable adaptability.<sup>64</sup>
- However, legal practitioners such as Mr. Amare Ashenafi expressed concern that the volume and complexity of documentary and procedural demands may be excessively burdensome for emerging private actors, diminishing legal accessibility. More over reflecting on the legal clarity and ease of understanding, while the legal provisions are technically comprehensive, they may not be easily accessible to non-experts or new market entrants.<sup>65</sup> This indicates that perceived clarity depends not only on textual precision but also on the institutional and interpretive capacity of potential applicants.

### **Capital Requirements and Financial Barriers**

- The ETB 500 million minimum capital requirement for licensing of a securities exchange was defended by ECMA participants. In this regard Ms. Hanna emphasized that the thinking was establishing a strong securities exchange and the focus is protecting investors and avoiding system risk; hence a strong exchange is needed. Also Mr. Mesfin Ayele, legal Director of the National Bank of Ethiopia, agrees with establishing strong capital market system and accordingly very structured and financially strong exchange has to be established.<sup>66</sup> Ms. Hanna claims that the capital requirement as essential for building a strong and resilient exchange, and with justification drawn from IOSCO recommendations.
- Nonetheless, both the NBE representative and Mr. Amare Ashenafi acknowledged that the 500 million Birr threshold could limit new entrants, reduce competition, and sustain monopolistic market structures. Additionally, in response to questions about whether financial barriers

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<sup>64</sup> Interview conducted with Ms. Hanna Tedla Teshome, Senior Legal Advisor of ECMA; and Ms. Elsabet Getachew, Market Supervision Director of ECMA. May 8, 2025.

<sup>65</sup> Interview conducted with Mr. Amare Ashenafi, Deputy Manager at 5A Law Firm LLP. May 5, 2025.

<sup>66</sup> Interview conducted with Mr. Mesfin Ayele, Legal Director of NBE. May 3, 2025.

disproportionately affect different segments of the market, participants acknowledged that domestic private entities- particularly SMEs and regional actors may find the entry thresholds prohibitive. This dynamic could entrench market centralization and exclude potentially innovative contributors from the market ecosystem.

### **Transparency and Discretion**

- ECMA participants insisted that the licensing framework is transparent and predictable, referencing detailed directive provisions. Yet, Article 6(5) of Directive No. 1009/2024 grants ECMA broad discretion to approve or deny licenses based on market conditions, which legal practitioners argue introduces significant uncertainty for applicants.
- Private respondents raised concerns that this level of discretion, in absence of clear procedural safeguards, could undermine trust in the regulatory process.

### **Private Sector Participation and Market Intent**

- Regulators argued that the ESX is already majority private-owned, implying that the private sector is sufficiently involved.<sup>67</sup> They pointed to brokers, advisors, and other licensed entities as evidence of inclusivity. On the other hand responses from the Ethiopian Chamber of Commerce suggested a different perspective, their cautious stance and lack of ownership over capital market readiness indicates limited private sector initiative or preparedness to pursue exchange licensing.<sup>68</sup> Interview data further revealed a divergence between the regulatory view of private sector involvement—mainly through ESX and intermediaries, and the perception within the business community, where many actors do not yet feel empowered or prepared to engage as exchange operators. This perceptual gap suggests that formal legal allowances alone are insufficient to stimulate actual market diversification.

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<sup>67</sup> Supra note 64

<sup>68</sup> Email message from Mr. Takele Ayele , Research Team Leader at Ethiopian Chamber of Commerce and Sectorial Associations. May 8, 2025.

## **Regulatory Flexibility**

- All ECMA participants acknowledged that the directives allow for suspension or adjustment of requirements based on market development, but confirmed that these are subject to internal evaluation and Board approval. While intended as a flexible mechanism, practitioners noted the lack of procedural clarity regarding how such relief is triggered and granted.
- When participants were prompted to assess whether the framework allows for adaptive responses to market realities, they reiterated that suspension mechanisms exist, but noted a lack of procedural transparency and stakeholder consultation in triggering such flexibility. As a result, theoretical adaptability may not translate into confidence or practical pathways for new entrants.

### **4.4. Thematic Discussion**

The interview findings confirm many of the doctrinal concerns raised in Chapter Three, especially regarding the entry barriers posed by financial and procedural requirements. While regulatory stakeholders emphasize robustness, investor protection, and international alignment, private sector voices raise alarms over feasibility, lack of procedural clarity, and lack of inclusiveness. Notably, the gap between legal intention and market preparedness is stark. Regulatory flexibility exists in principle, but its discretionary nature undermines its utility in reducing perceived risk among potential entrants. The current environment appears more aligned with controlled market formation than with open, competitive exchange development.

### **4.5. Emerging Practice Observations**

All respondents confirmed that, as of the time of the interviews, no new applications had been made by private actors to establish a securities exchange beyond ESX. This suggests that while the law allows for private participation, the actual interest is hindered—potentially due to the combined weight of capital, governance, technological, and procedural expectations. The absence of practical interest from the Ethiopian Chamber of Commerce reflects a gap between legal opportunity and market motivation.

#### **4.6. Conclusion**

The empirical findings presented in this chapter reinforce the conclusion that Ethiopia's securities exchange licensing regime, while legally sound and protectively designed, may not yet be conducive to widespread private sector entry. Stakeholder perspectives highlight both the strengths and limitations of the framework—its legal clarity, but also its rigidity; its protective intent, but also its exclusionary impact. Going forward, policy reconsideration may be necessary to translate legal possibility into practical market plurality and inclusivity.

## **Chapter Five: Conclusion and Recommendations**

### **5.1 Conclusion**

This thesis has critically examined Ethiopia’s legal and institutional framework governing the licensing of securities exchanges. By applying doctrinal analysis and empirical inquiry, it assessed the regulatory regime’s conduciveness for private sector participation and capital market development. The study found that while the framework—anchored in Proclamation No. 1248/2021 and its supporting directives—demonstrates commendable efforts in aligning with international standards, it also introduces legal and procedural burdens that disproportionately affect private applicants. These include a high capital requirement, regulatory discretion, and heavy governance and technology obligations. Furthermore, interview responses from regulators and market actors reveal a divergence in the understanding of private sector readinesses and the extent of regulatory openness. Despite claims of flexibility and openness, practical indicators such as the absence of private applications for additional exchanges highlight structural deterrents. While the establishment of ESX marks institutional progress, the broader licensing landscape needs revision to allow inclusive and competitive participation in the securities market.

## **5.2 Recommendations**

**Based on the research findings, the following recommendations are proposed:**

1. Review and Reduce Capital Requirements: Consider a tiered capital structure or phased capital contribution plans to support local entrants.
2. Procedural Transparency: ECMA should issue detailed procedural guidelines clarifying how discretionary powers will be exercised under the law.
3. Public Consultation: Mandate structured stakeholder engagement during rulemaking or directive revision processes; especially on issues of the need for establishing additional exchanges.
5. Capacity Building: Enhance ECMA's institutional and technical capabilities to support a growing and competitive capital market.
6. Competition Policy Integration: Introduce policies that actively promote competition in the exchange landscape and prevent concentration.

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Directive No 1031/2024 on Recognition and Supervision of Self-Regulatory Organizations (Ethiopia)

### **Articles**

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Jetu Edosa Chewaka, 'Legal and Institutional Challenges of Establishing a Stock Market in Ethiopia' (2015)

Mulunesh Gizachew, 'Prospects and Challenges of Establishing Securities Exchange in Ethiopia' (Unpublished Manuscript, Addis Ababa University 2014)

Girma Gudde Jote, 'Legal Challenges in Share Transfer in Ethiopia' (2023)

Haileberhan Zena, 'Prospects for Capital Market Development in Ethiopia: Policy and Legal Perspectives' (2021)

Dagnachew Worku Gashu, 'Legal and Institutional History of Stock Exchange Development in Ethiopia' (2017)

International Organization of Securities Commissions (IOSCO), 'Objectives and Principles of Securities Regulation' (2020)

Organisation for Economic Co-operation and Development (OECD), 'Capital Market Development and Regulation: Policy Recommendations' (2018)

Ogus A and Zhang X, 'Licensing Regimes: East and West Compared' (2005) 3(1) Regulation & Governance 50

Craig Pirrong, 'The Industrial Organization of Financial Exchange' (2000) 1(1) Journal of Law and Economics

Selma Boussetta, 'Competition in Exchanges and Reputational Concerns' (ScienceDirect 2020)

World Bank, 'Doing Business in Ethiopia 2020' (World Bank Group)

Meskerem Waktola and Henok Biazin, 'Stock Market Readiness in Ethiopia: Legal and Institutional Gaps' (2022) SSRN

# **Annex**

Interview Protocol

Thesis Title: An Assessment of Ethiopia's Law and Emerging Practice of Licensing Securities Exchanges

Research Question: Are the Ethiopian law and emerging practice of licensing securities exchanges conducive for market development?

(Especially from the perspective of enabling private sector participation in establishing securities exchanges?)

Researcher: Ashenafi Yirga

Program: LLM in Business Law

Advisor: Dr. Solomon Abay

## **Purpose of the Interview**

This interview is conducted as part of a graduate research project aimed at assessing the conduciveness of Ethiopia's legal and regulatory framework for licensing securities exchanges, with a particular focus on enabling private sector participation. Your insights as a stakeholder, expert, or practitioner are invaluable to understanding both the implementation and perception of the existing licensing regime.

## **Consent**

Participation is voluntary, and responses will be kept confidential and used solely for academic purposes. You are free to decline to answer any question or withdraw from the interview at any time.

## **Interview Questions**

### **Introductory and Background Question**

1. Could you please introduce your current role and your experience with Ethiopia's capital market reform process?

2. Have you or your institution been involved in the design, implementation, or interpretation of the licensing framework under the Capital Market Proclamation No.1248/2021 or Directive No. 1009/2024

#### Legal Clarity and Licensing Transparency

3. How clear and accessible do you find the legal requirements for establishing a securities exchange under Proclamation No. 1248/2021 and Directive No. 1009/2024?

(Are the licensing criteria (e.g “adequate capital”, “fit and proper”) defined with sufficient clarity?)

4. How transparent is the licensing process administered by ECMA? Are the timelines, application steps, and decision criteria publicly available and predictably applied?

#### B. Financial and Institutional Barriers

5. Do you believe the minimum capital requirement of ETB 500 million is appropriate for encouraging private sector entry?

(Would a tiered or phased capital threshold be more conducive?)

6. What are your views on the application, licensing and annual renewal fees required under Directive No. 996/2024?

(Do you consider these financial obligations proportionate to market development goals)

7. Are the technological and governance requirements (e.g. automated systems, board independence) realistically achievable by new or smaller private entities?

#### C. Regulatory Discretion and Oversight

8. To what extent do you believe ECMA’s discretionary powers (in licensing, revocation, inspection, etc) are balanced with procedural safeguards?

(IS there adequate, independent opportunity for application to appeal or seek clarification?)

9. Do you think the inspection and sanctioning provisions of Directive No. 1031/2024 could discourage private-sector entities from applying? Why or why not?

10. What are your thoughts on ECMA’s dual role as both regulator and, indirectly, promoter of the Ethiopian Securities Exchange?

#### D. Policy Coherence and Market Orientation

11. Do you observe a clear policy intent in Ethiopia’s legal framework to promote private sector-led establishment of securities exchanges?

(If yes, how is this manifested? If not, what is missing?)

**E. Experience with ECMA and Institutional Readiness**

12. From your experience, how would you assess ECMA's institutional capacity to license and regulate securities exchanges effectively and neutrally?

(Are there areas where ECMA could improve its service delivery or engagement with the private sector?)

13. Have you or your organization ever engaged with ECMA to explore licensing a securities exchange? What was your experience? What challenges (if any) did you encounter?

14. Are there any application (that you know) logged by the private sector to establish a securities exchange?

15. What concrete reforms would you recommend to make Ethiopia's licensing framework more enabling for private-sector led securities exchanges?

**F. Final Synthesis**

16. Do you believe the current Ethiopian law and regulatory practice is conducive for private-sector participation in the establishment of securities exchanges? Please elaborate with supporting examples or observations.

Thank you very much.