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**Assessing the Problem and Favorable Conditions of Launching a
Capital Market in Ethiopia**

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DECLARATION

I, Samuel Tedla, declare that the thesis entitled “Assessing the Problem and Favorable Conditions of Launching a Capital Market in Ethiopia” is my original work and has not been previously submitted for the award of degree in any university. And all the sources of materials used for the project work have been duly acknowledged.

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CERTIFICATION

This is to certify that Samuel Tedla has carried out his research work entitled “Assessing the Problem and Favorable Conditions of Launching a Capital Market in Ethiopia” as a partial fulfillment of the requirement of Master of Arts Degree in Business Leadership at Addis Ababa University, School of Commerce. Under my advisor ship this study fulfills requirements to obtain academic Degree from the university.

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ACRONYMS AND ABBREVIATIONS

ECMA	Ethiopian Capital Market Authority
EIH	Ethiopia Investment Holdings
ESX	Ethiopia stock exchange
IFRS	International Financial Reporting Standard
NBE	National Bank of Ethiopia
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
FSD	Financial Sector Deepening

ABSTRACT

This research study delves into the challenges and conditions involved in establishing a capital market in Ethiopia, aiming to provide an updated analysis of factors impacting its successful launch and operation. Employing a descriptive case study approach, data was collected through interviews with key participants primarily from Ethiopian Investment Holding (EIH) and Ethiopian Capital Market Authority (ECMA). Despite the political and economic volatility in Ethiopia, the study reveals a positive outlook from the government, EIH, and ECMA regarding the capital market launch. However, concerns persist regarding the launch timing and the need for public awareness. The study recommends that the government, ECMA, and EIH fulfill their respective roles and responsibilities in the capital market launch, with the government focusing on creating a favorable environment, ECMA providing necessary infrastructure and regulatory frameworks, and EIH contributing skilled experts. Collaboration among these entities is emphasized to overcome challenges and leverage favorable conditions for the capital market launch in Ethiopia.

Key Words: capital market, launching, infrastructure, security exchange.

CHAPTER ONE

1.1. Background of the Study

The objective of this study is to examine the current obstacles and favorable factors related to the launch of a capital market in Ethiopia. To understand the concept of a stock market, it is important to define the term "stock." Stocks represent shares of ownership in a market where individuals and organizations raise capital funds through subscription or sale of shares. These shares are traded in a stock market, which is part of the broader capital market. The capital market involves the buying and selling of securities such as stocks, bonds, and derivatives.

The first stock exchange in the world was established in London in 1773, followed by the Amsterdam market for Dutch East India Company shares in the early 17th century. In the United States, the Philadelphia Stock Exchange was established in 1791, and the New York Stock Exchange, founded in 1792, remains the largest stock exchange globally. Currently, there are around 200 stock exchanges in over 60 countries, with the International Federation of Stock Exchanges coordinating their activities (Tashkent Financial Institute, 2020).

In Africa, there are 29 stock exchanges representing 38 countries' capital markets. The Johannesburg Stock Exchange is the largest in Africa, with 388 listed companies and a market capitalization of USD 987 billion. Other notable African stock markets include the Nigerian Stock Exchange and the Egyptian Stock Exchange (Ethiopian Business Review, 2020).

Despite being one of the fastest-growing economies in Africa, Ethiopia has yet to establish a capital market. The Ethiopian Capital Market Authority, Ministry of Finance, Ethiopian Investment Holdings, and FSD Africa are the main organizations responsible for its establishment. Cooperation agreements have been signed among these entities to define the regulations and framework for the Ethiopian capital market. Once operational, it will become the 30th stock exchange on the continent. At least fifty companies, including banks and insurance companies, are expected to list at the launch of the exchange (Kenyan Wall Street, May 18, 2022).

Ethiopia has experienced strong economic growth, averaging 9.4% from 2010 to 2020, according to a World Bank report. However, sustaining this growth is a challenge due to issues such as limited job creation and governance concerns that perpetuate the cycle of poverty. Additionally, the impact of the COVID-19 pandemic and the civil war in the northern part of the country have negatively affected Ethiopia's economy. Despite these challenges, Ethiopia is preparing to launch a stock exchange. This study aims to investigate how these current problems may affect the plans for launching a stock market in Ethiopia and identify favorable conditions for establishing it.

1.2. Statement of the Problem

This research serves two primary purposes. Firstly, it aims to provide an up-to-date analysis of the problems and favorable conditions surrounding the establishment of a capital market in Ethiopia. While previous studies have been conducted on the pre-launching of a capital market in the country, the volatile economic and political situation poses challenges to the relevance and viability of these studies. Factors such as the recent war in northern Ethiopia, the impact of COVID-19, and the ongoing issue of uncontrolled inflation necessitate an updated assessment before launching a securities exchange in Ethiopia. Therefore, this study seeks to develop a current understanding of the problems and favorable conditions related to the launch of a capital market in Ethiopia. By building on the lessons learned from previous studies, this research assesses the most recent gaps and favorable circumstances to facilitate the effective implementation of a securities exchange in Ethiopia.

Secondly, this study aims to investigate the reasons behind the delays in launching the capital market in Ethiopia by examining the perspectives of the Ethiopian Capital Market Authority, the Ministry of Finance, and the Ethiopian Investment Holdings. Initially planned for 2020, the establishment of a capital market was subsequently postponed to 2022 and now aims for a launch in 2023/2024. By analyzing historical patterns and factors that have contributed to the delays in launching the capital market, this research seeks to identify the underlying causes of the postponements.

In summary, this research is needed because of lack of up-to-date analysis on the problems and favorable conditions surrounding the establishment of a capital market in Ethiopia. Additionally, the need for this study lays on the importance of investigating factors that have led to the delays

in launching the capital market in the country. By fulfilling these objectives, the study aims to provide valuable insights that can contribute to the effective implementation of a capital market in Ethiopia.

1.3. Research Question

This study aims to address the overarching research question: what are the current problems and favorable conditions that could influence the successful establishment and operation of a capital market in Ethiopia? To guide the investigation, the study formulates four sub-questions:

- 1) What are the prerequisites for launching a capital market in Ethiopia?
- 2) How prepared is the financial infrastructure in Ethiopia to support a capital market exchange?
- 3) What are the implications of the current political and economic conditions in Ethiopia on the operations of a liquid securities exchange?
- 4) How effective are the regulatory institutions and frameworks in the capital market exchange of Ethiopia?

By addressing these sub-questions, the study seeks to provide a comprehensive understanding of the present challenges and favorable conditions associated with the launching and operation of a capital market in Ethiopia.

1.4. Objective of the Study

1.4.1. General Objective

The main objective of this research is to assess the current problems and favorable conditions of launching capital market in Ethiopia.

1.4.2. Specific Objective

The specific objectives of the study are:

- To identify current challenges and opportunities for Ethiopia capital market.

- To assess the ratified regulation, preparation of involved bodies, fitting with sophisticated system and Technology, financial management readiness, and supervisory structure of the new Ethiopia capital market.
- To develop strategy that would assist the Ethiopian capital market authority and other regulatory bodies in the launching process of capital market in Ethiopia.

1.5. Significance of the Study

The need for scholarly research on the problem and favorable conditions toward launching a capital market in Ethiopia has the following four significances. First, there are limited scholarly research that have been done on the issue. Moreover, studies that have done previously need to be revised in the light of the current socio-economic and political context of Ethiopia since these factors have a direct impact on the launching process of capital market in Ethiopia. Therefore, in addition to contributing another scholarly work, this dissertation will offer an up to date impute for effective launching process of capital market in Ethiopia.

Second, the government of Ethiopia and the Ethiopian capital market authority may benefit from this study. The first plan to launch a capital market in Ethiopia was in 2020 and that plan is not accomplished yet. A deeper analysis on the problematic and favorable conditions of launching a capital market in Ethiopia will help to examine why Ethiopia is still stragglng to accomplish the launching. This dissertation will also provide a significant contribution in assisting the government and Ethiopian capital market authority to review its regulation, policy, directives, and the internal structure of regulatory organization.

Third, investors and communities at large can benefit from this dissertation. This study can help investors and communities to increase their financial literacy. In other words, this dissertation would serve as eye opener to attract participants to engage in the security exchange business with a better understanding of the benefits including economic growth both personally and at a national level.

Fourth, countries that wish to establish capital market can take their lessons from this study and adopt some findings that suit their context.

1.6. The Scope of the Study

The scope of this study is limited to the phenomenon happened in the past two years. The study is bounded within this time because the researcher sought to identify current gaps in the launching of capital market in Ethiopia. This dissertation intends to offer an up-to-date input for effective implementation of capital market in Ethiopia. The scope of this study also targets on the few responsible individuals and institutions behind the launching process of capital market in Ethiopia. Specifically, this study will obtain its data from identified institutions such as, the Ethiopian capital market authority, the Ethiopian investment holdings, and other stake holders like Banks. All these institutions are geographically located in Addis Ababa, Ethiopia. Focusing on these specific institutions will help the researcher obtain firsthand information from the practitioners on the problems and favorable condition of launching capital market in Ethiopia. Moreover, this study limits its scope within the framework of theoretical concepts including greater fool theory and technology diffusion theory. Employing these theoretical frameworks as a scope is important because it helps to develop a better understanding of the regulatory and infrastructural aspects of capital market in Ethiopia.

1.7. Limitation of the Study

One of the limitations of this study is that the concept and practice of security exchange is very vast and interrelated with many different aspects. To meet the objective of this study with a desired quality, this researcher concentrates only on one specific matter, pre-launching capital market in Ethiopia. Hence, this may ignore other aspects of capital market that could trigger attention diversion from the main objective of the study. Another limitation is that it is very difficult to find people who have adequate exposure on security exchange. This occurs because security exchange is a recently introduced concept in the Ethiopia's economy.

1.8. Definition of Terms

The following list includes definitions of key terms used throughout this dissertation.

- The term "Capital Market" refers to a marketplace where different securities such as shares or equities, bonds, derivatives, and related securities are bought and sold. This definition is derived from the Ethiopia Capital Market Proclamation No.1248 /2021.

- Ethiopian capital market authority: Refers to one of the regulatory organizations in the capital market in Ethiopia.
- Infrastructure: Refers to technological infrastructure, including advanced trading platforms, reliable internet connectivity, and efficient settlement systems.

1.9. Organization of the Research Report

The paper is structured into five chapters, each serving a specific purpose. Here is a breakdown of the content covered in each chapter:

Chapter 1: Introduction. This chapter provides an overview of the study's background, states the problem being addressed, presents the research question and objectives, discusses the significance of the study, defines the scope and limitations of the research, and outlines the structure of the paper, chapter by chapter.

Chapter 2: Literature Review. This chapter conducts a comprehensive review of relevant literature including examining theoretical, empirical, and conceptual works, exploring capital market-related theories, models, and principles and investigating the history of the capital market in Ethiopia.

Chapter 3: Research Design and Methodology. In this chapter this study focuses on the research design and methodology employed. It also outlines the data collection instruments and analysis techniques.

Chapter 4: Results and Discussion. This chapter presents the findings derived from the collected data. It also analyzes and interprets the results in relation to the literature review and provides a comprehensive discussion of the outcomes.

Chapter 5: Summary, Conclusion, and Recommendation. This chapter summarizes the key findings of the study and draws conclusions based on the analyzed data and findings. It also offers recommendations for the successful launch of the capital market in Ethiopia.

CHAPTER TWO

LITERATURE REVIEW

This chapter involves a comprehensive review of relevant literature on capital markets, covering theoretical, empirical, and conceptual aspects. Following Mayring's (2003) definition, “the literature review is conducted using a systematic and clear approach to analyze and identify the conceptual content within the field” (Mayring, 2003). The main focus of this chapter is to explore existing literature that addresses the challenges and favorable conditions related to the establishment of a capital market. By examining capital market concepts and theories, the review aims to provide insights and answers to the research questions posed in this study.

2.1 Capital Market in Ethiopia

Ethiopia, situated in northeastern Africa, specifically in the horn of Africa, is a country known for its rich cultural heritage and sizable population, second only to Nigeria on the continent. Ethiopia is home to over 80 ethnic groups and boasts more than 83 spoken languages. Unlike many African nations, Ethiopia has never been colonized by European powers, which has contributed to the preservation of a strong cultural identity untainted by external influences (Ethiopian Embassy, Washington D.C. <https://ethiopianembassy.org/overview-about-ethiopia/>, accessed 4 April, 2023).

Despite these challenges, Ethiopia can capitalize on its large population and flourishing privatization efforts as advantages in the anticipated launch of a capital market. A well-managed capital market plays a crucial role in driving economic growth, while mismanagement can lead to economic, political, and social crises. Scholarly works have emphasized the importance and potential risks associated with opening a security exchange in Ethiopia.

The benefits of establishing a capital market in Ethiopia are numerous. It has the potential to attract increased investments, stimulate economic growth, and diversify the country's financial services. Scholars like Abrha Bairu (2018) have identified favorable conditions for launching a capital market in Ethiopia, including rapid economic growth, energy expansion, a thriving private sector, improved capital flow, a shift towards household investments, and the presence of

qualified companies ready for establishment. The flourishing private sector in Ethiopia presents a particularly promising prospect for the launch of a capital market as it encourages local production, income distribution, and citizen participation. Currently, the state dominates the Ethiopian economy, but ongoing privatization efforts aim to enhance the role of the private sector. However, challenges such as the lack of regulatory systems and the prevailing socio-political instability hinder the privatization process (Abrha Bairu, 2018). Also, Abrha Bairu (2018) identified eleven factors that influence the efficiency of a security exchange in Ethiopia, including government commitment, macroeconomic conditions, corruption and transparency, the business environment, foreign investment, stakeholder opinions, legal and regulatory infrastructures, securities enforcement, the judicial system, accounting and auditing, and corporate governance. These factors underscore the need for improvements in governance, institutional frameworks, and legal and policy structures to support a thriving capital market.

Historically, Ethiopia had a moderately successful conception capital market during the Imperial regime, providing an organized platform for share trading. However, with the rise of the Dergue regime and the introduction of a centrally planned economy, private industries were nationalized, and share dealing groups dissolved. From 1975 to 1991, there was no conducive environment for capital market development (Jetu Edosa, 2014).

It was since 1991 that the Ethiopian government has embraced a system that encourages private sector participation in the country's economic development. While major economic sectors remain under state control, various financial and non-financial sectors are open to private investors. The government has prioritized the development of the banking system and the Ethiopian Commodity Exchange (ECX) for agricultural products. Despite attempts by institutions like the Addis Ababa Chamber of Commerce and Sectoral Associations to establish a capital market, permission from the government has not been granted. However, recent indications suggest the potential introduction of a secondary market for bonds in the future (Ruecker, 2011).

In recent years, under the leadership of Prime Minister Abiy Ahmed, Ethiopia has renewed efforts to establish a capital market. Prime Minister Abiy announced plans to set up a capital market by 2020, but the actual launch has been delayed. According to a report from Business Insider Africa (January 17, 2023), Ethiopia's new stock market, known as ESX, is expected to

become a reality in 2024-25. This highlights the ongoing commitment and progress towards realizing a capital market in Ethiopia.

2.2. Conceptual Framework of the Study

According to Black & Henery (1991), the term "stock" can be defined as the funds raised by a corporation through contributions or the sale of shares, representing ownership in the company. Stocks are typically traded in the stock market. Mishkin (2004) defines the capital market as a type of stock market where corporations sell stocks to investors. Mishkin (2004) added that a conceptual framework as a visual or written representation that explains the main elements to be studied, including key factors, concepts, or variables, and their presumed relationships. Variables are measurable characteristics that differ among subjects. Independent variables are changes in an experiment caused by the experimenter, while dependent variables are influenced by another variable.

Mishkin, (2004) defined the money market is a financial market where short-term debt instruments are traded, while the capital market deals with longer-term debt and equity instruments. Money market securities are more frequently traded and therefore more liquid than longer-term securities.

Capital market trading occurs in the primary market, where new stocks and bonds are introduced, and in the secondary market, where previously issued securities are sold. The primary market includes initial public offerings and subsequent sales of new securities, while the secondary market involves the sale of existing securities. Secondary markets can be organized through exchanges or over-the-counter markets (Mishkin, 2004).

This study aims to examine the challenges and favorable conditions related to launching a capital market in Ethiopia. Independent variables such as the current political and economic situation, regulatory and infrastructural facilitation, and the capacity of institutions and financial intermediaries will be investigated to understand their impact on the successful establishment of a stock market.

2.3. Theoretical Framework

2.3.1 Greater Fool Theory

The concept of the "greater fool theory" was initially introduced by Professor Burton Malkiel in 2011. It proposes that there will always be someone willing to purchase an overvalued asset at a higher price, hence the term "greater fool." This theory is commonly associated with market bubbles, such as the real estate bubble of the 2000s and the tech-stock bubble of the late 1990s, characterized by significant increases in asset prices surpassing their intrinsic value.

A market bubble occurs when the prices of specific assets experience a sharp and disproportionate rise compared to their fundamental worth. Bubbles are often seen as instances of irrationality, driven by unwarranted optimism that drives up asset prices and results in misallocation of investments. Finance academics and practitioners do not universally agree on the causes and sustainability of asset bubbles. However, one theory frequently discussed in relation to bubble continuation is known as the "Greater Fool Theory" (Burton Malkiel, 2011).

According to the Greater Fool Theory, Burton Malkiel (2011), individuals can profit during a market bubble by acquiring overvalued assets and later selling them at a higher price. This approach disregards the assets' fundamental value. The theory rests on the belief that there will always be someone else willing to pay an even higher price. Investors subscribing to this theory engage in speculation on future asset prices, assuming they will always find a "greater fool" to sell the assets to. However, when the bubble inevitably bursts, triggering a substantial sell-off, those left holding the assets without buyers can face significant financial losses.

In the context of the stock market, the Greater Fool Theory becomes relevant when stock prices detach from the intrinsic value (cash flows) of the company. The theory suggests that any price, regardless of its height, can be rationalized as long as another buyer is presumed to exist, willing to pay an even higher price.

2.3.2. Technology Diffusion Theory

The theory presented by Rogers (2003) focuses on the process of technology diffusion, wherein an innovation is communicated among members of a social system over time. Rogers conducted a study on the adoption of information and communication technology (ICT) within the New York Stock Exchange (NYSE). His findings suggested that "the NYSE invested in ICT with the

aim of creating new resources and enhancing existing ones to gain an advantage” (Rogers, 2008). The study highlighted the advantages of ICT, including “efficient trade execution, increased trading capacity, improved market quality, and reduced labor and space requirements” (Rogers, 2008).

In a study on capital market growth in sub-Saharan Africa, Yartey and Adjani (2007) proposed certain prerequisites for addressing liquidity challenges and promoting regional integration in security exchanges. “These prerequisites included the adoption of a robust electronic trading system and a central depository system, among other factors” (Yartey and Adjani, 2007).” This theory forms the basis for analyzing the infrastructure conditions in the current study.

2.4. Principles

2.4.1. G20/OECD Principles of Corporate Governance

The G20/OECD principle, introduced in 2015, consists of six core principles that provide guidance to policymakers in assessing and enhancing the legal, regulatory, and institutional framework of corporate governance. The aim is to support economic efficiency, sustainable growth, and financial stability, taking into account both the financial and corporate sectors. These principles draw upon lessons learned from the global financial crisis, changes in stock market operations, and the complexities arising from an extended investment chain.

The six principles of corporate governance promote transparency, fairness, and adherence to the rule of law. They protect shareholder rights, encourage stakeholder collaboration, and emphasize disclosure and transparency. The responsibilities of the board of directors include informed decision-making and prioritizing the company's best interests.

(<http://dx.doi.org/10.1787/9789264236882-en>. Accessed 9 May 2023).

According to Catalan et al. (2000), the board's role is pivotal in capital market development, alongside factors such as macro stability, legal rights, and the positive impact of contractual savings institutions.

2.4.2 The Role of Governments in Financial Markets

There are two contrasting perspectives on the role of governments in financial markets. The first perspective advocates for extensive government interventions to address significant market failures. According to this view, government intervention is seen as the solution to problems in financial markets. In contrast, the second perspective argues that government intervention is problematic and can actually lead to market failures. It suggests that implementing policies that are not beneficial to financial markets can have adverse consequences (Fabozzi & Jones, 2019).

Stiglitz (1993) rightly points out that financial markets differ from other types of markets, such as labor or nonfinancial product markets. He emphasizes that certain forms of government regulation can create a financial system that mitigates the risk of market failure. Stiglitz identifies specific circumstances where government regulation can be advantageous.

However, it is worth noting that government regulation or intervention can also be a catalyst for major financial crises. In such cases, market failure occurs as a result of government failure rather than inherent flaws in the market itself.

2.4.3. Financial Intermediaries

Understanding the significance of financial intermediaries and their functions is crucial for examining their role in the Ethiopian stock exchange. Mishkin & Eakins (2018) define financial intermediaries as institutions that obtain funds by issuing liabilities and utilize those funds to acquire assets through the purchase of securities or the provision of loans. These intermediaries play a vital role in the financial system by reducing transaction costs, facilitating risk sharing, and addressing issues like adverse selection and moral hazard. Consequently, they enable small savers and borrowers to benefit from financial markets, thereby enhancing overall economic efficiency. However, the broad scope of financial intermediaries can also introduce conflicts of interest that may undermine the effectiveness of the financial system.

Financial intermediaries can be categorized into three main types. The first category consists of depository institutions, such as commercial banks, savings and loan associations, mutual savings banks, and credit unions. The second category includes contractual savings institutions, such as life insurance companies, fire and casualty insurance companies, and pension funds. The third

category comprises investment intermediaries, including finance companies, mutual funds, money market mutual funds, hedge funds, and investment banks (Mishkin & Eakins, 2018).

These principles have direct relevance to this study as they provide a framework for evaluating the capital market environment, regulatory institutions, and regulatory framework's impact on the effectiveness of the Ethiopian stock exchange.

2.5. Empirical Review

2.5.1. Political and Economy situations

Two contrasting views exist regarding the role of governments in financial markets. According to Gourevitch and Shinn (2005), politics influences regulations, which, in turn, shape corporate governance and can either protect or exploit investors. On the other hand, some argue that government intervention itself is problematic and may lead to market failures by implementing unfavorable policies (Fabozzi & Jones, 2019).

Examining the impact of macroeconomic factors on banking sectors and capital market development, Andrianaivo and Yartey (2009) find that capital market liquidity, domestic savings, banking sector development, and political stability are key determinants of capital market development.

Erb et al. (1996b) show a positive relationship between expected returns and political risk, indicating that lower political risk corresponds to lower required returns. This suggests that political risk influences investment decisions and can impact the cost of equity and, consequently, capital market development.

While some, like Robinson (1952), argue that financial systems merely respond to developments in the real sector rather than driving economic growth, others, such as Schumpeter (1912), support a positive correlation between capital market development and economic growth. Schumpeter argues that efficient financial intermediation stimulates technological progress and innovation. Boubakari & Jin (2010) conclude that the capital market is a stable predictor of economic growth in emerging economies.

Capital markets serve as regulated marketplaces where company shares are listed and traded, facilitating investment, efficient capital allocation, and innovation. They enable companies to invest in growth, create employment opportunities, and generate wealth (Haileberhan Zena, 2021). Secondary markets, as highlighted in the United States Treasury report (2017), provide liquidity and investment opportunities for entrepreneurs, workers, and investors.

Empirical studies, including Atje and Jovanovich (1993), Demirgüç Kunt and Levine (1996), Korajczyk (1996), and Levine and Zervos (1996 & 1998), consistently support a strong positive relationship between capital market development and economic growth. In Africa, Emmanuel and King (2014) find a bi-directional positive relationship between economic growth and capital market development in Ghana. Amavi Agbélénko (2016) reveals mixed effects, with market capitalization and stock values traded having a limited impact on economic growth, while capital market turnover shows a positive but statistically insignificant influence.

Studies on Nigeria by Rabi et al. (2015) and Alajekwu and Achugbu (2012) suggest that market capitalization and value traded ratio have a negative effect on economic growth, while turnover ratio has a strong positive impact.

Examining Kenya's Nairobi Securities Exchange, Ikikii and Nzomoi (2013) find that capital market development positively contributes to economic growth, particularly through market capitalization and trade volume, with market size playing a more influential role than liquidity.

Overall, these findings underscore the complex relationship between politics, financial markets, and economic growth, emphasizing the significance of capital market development in driving progress.

2.5.2 Infrastructural and Regulatory Frameworks Situations

The effectiveness of the stock market depends greatly on infrastructure, regulatory institutions, and frameworks. Without strong investor protections and a reliable rule of law, investors may be reluctant to provide capital. To ensure healthy capital markets, it is crucial to establish a well-designed regulatory structure that promotes fairness, predictability, and efficiency for both investors and companies. However, research indicates that African stock markets suffer from small size, low liquidity, infrastructure issues, and weak regulatory institutions. (IMF, 2007)

Automation in stock exchanges speeds up operations, reduces costs, and allows for extended trading hours. It eliminates the need for intermediaries and empowers investors to monitor and trade on markets directly. Ethiopia aims to launch its securities exchange, but it requires infrastructure support, particularly improvements in internet and cell phone capabilities, to facilitate efficient and accurate trading. (Mohammed, 2010)

The legal system of a country plays a significant role in financial development. Common law systems are more conducive to capital market growth than civil law systems. Strengthening property rights, credit protection, and investor safeguards through sound legal frameworks, disclosure requirements, and accounting practices are crucial for the development of corporate securities markets. (La Porta et al, 1997, and 1998)

Ethiopia faces challenges in establishing a capital market due to the absence of institutional, legal, and policy frameworks (Ruecker,2011). However, recent announcements and the ratification of the Capital Markets Proclamation show progress in this area. Initiatives such as Ethiopia Investment Holdings and the upcoming Ethiopian Securities Exchange demonstrate efforts to attract international investments and pave the way for a stock market. In fact, Improvements are needed in the legal and regulatory infrastructure, including the establishment of a regulatory body, a robust judicial system, accounting and auditing standards, corporate governance practices, and regulations for takeovers, mergers, bankruptcy, and insolvency. (Business Insider Africa, January 17, 2023)

According to IFRS Foundation (2016), the adoption of International Financial Reporting Standards (IFRS) brings transparency, accountability, and efficiency to financial markets globally. Although Ethiopia's accounting and auditing standards are still developing, the implementation of IFRS and the involvement of organizations like the National Accounting and Audit Board and the Association of Chartered Certified Accountants (ACCA) indicate progress in this area. (Ruecker, 2011).

Corporate governance is another essential aspect, and Ethiopia is committed to enhancing corporate governance standards. However, challenges persist, including instances of poor corporate governance in share companies that neglect the interests of minority shareholders. (Alemneh, 2015)

In summary, the empirical studies and recent developments shed light on the relationship between launching an effective stock exchange in Ethiopia and the current political and economic landscape. Assessing existing regulatory institutions, intermediaries, and regulations is crucial for the successful launch and future prospects of the Ethiopia stock exchange in 2024/25.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Description of the Study

The research methodology employed in this study is a descriptive qualitative case study approach. This approach is chosen because it enables a thorough investigation of the significant challenges and potential benefits related to the establishment of a capital market in Ethiopia. By examining the current socioeconomic and political conditions, as well as the potential to attract investment, foster economic growth, and broaden financial services, this study aims to provide a comprehensive understanding of the subject matter. The qualitative case study design allows for a detailed exploration of these aspects, offering valuable insights into the topic.

3.2. Research Approach

In order to accomplish the objectives of this study, the researcher collected accurate and dependable data that provides a clear depiction of the challenges and advantageous conditions associated with establishing a stock market in Ethiopia, considering the current socioeconomic and political context. To gather this data, the researcher utilized interview questions, all of which were designed as open-ended. This approach allowed for follow-up inquiries, enabling the researcher to explore the topic of launching a capital market in Ethiopia in-depth and gain a comprehensive understanding of the subject. By employing this method, valuable insights were obtained that contributed to the overall findings of the study.

3.3. Research Design

The research design serves as a framework for collecting and analyzing data in a cost-effective manner, guiding the researcher in achieving research objectives and addressing questions. It encompasses the strategies and conditions used to gather and interpret relevant information. Additionally, it determines the extent to which findings can be applied to different situations. In this study, a descriptive case study survey approach is employed to accurately depict the characteristics of specific individuals, situations, or groups, with a focus on patterns that illustrate the process of launching a capital market in Ethiopia. This approach involves in-depth

contextual analysis of a limited number of events or conditions and their interconnections. According to Yin (1993), descriptive research method investigates contemporary phenomena within their real-life context, where the boundaries between the phenomenon and context may not be clearly defined, and multiple sources of evidence are utilized. By utilizing this research methods, this study aims to provide comprehensive insights into the subject matter.

3.4. Population Sample and Data Sources

The research focused on a specific population consisting of employees from the Ethiopian Capital Market Authority and Ethiopian Investment Holding. Due to the capital market not being operational yet, the sample size for this study was small. Eight individuals were chosen to participate, representing both organizations.

Primary data was collected through interviews conducted with individuals from the Ethiopian Capital Market Authority, employees of Ethiopian Investment Holding, and other stakeholders in the field. These interviews provided valuable insights and firsthand information for the study.

3.5. Data Collection Procedures

This study involved the creation of a suitable questionnaire designed to assess the challenges and favorable factors associated with launching a capital market in Ethiopia. The identified participants were provided with the interview questions, which served two purposes: to obtain their consent to participate in the study and to enable them to prepare for the interview session.

3.6. Reliability and Validity

To ensure the study effectively achieves its intended objectives, several factors related to reliability and validity considered by the researcher. Firstly, a direct observation of the actual circumstances was conducted by visiting relevant entities involved in the launch of the capital market in Ethiopia. These on-site observations provided valuable insights and enhance the reliability of the study.

Secondly, multiple sources of information were utilized, including reports, documents, journals, and reputable websites. By incorporating data from various reliable sources, the validity of the study was reinforced, ensuring a comprehensive and accurate analysis.

Thirdly, the researcher actively sought feedback and validation from individuals well-versed in capital markets, including the study participants and other experts in the field. Their insights and perspectives sought to assess the findings and ensure the research outcomes are robust and credible. This process of validation was contributed to the overall reliability and validity of the study.

3.7. Ethical Consideration

Leedy and Ormrod (2010) highlighted four primary ethical considerations that must be addressed when conducting research. These include protecting participants from harm, obtaining informed consent, respecting the right to privacy, and maintaining honesty with professional colleagues. This researcher is committed to upholding these ethical principles and ensuring the well-being of the participants.

In this study, obtaining the participants' consent is a fundamental ethical requirement. Prior to the research, the respondents received a clear explanation of the questionnaire's purpose, and they asked to indicate their willingness to participate by checking a designated box. The questionnaires were designed in a straightforward manner, making it easy for the participants to understand and complete each item. Moreover, participants were given the freedom to withdraw from the study at any point during the interview if they so desire.

The researcher places great emphasis on respecting the privacy and confidentiality of the participants. The participants' right to provide honest, unfiltered, and comprehensive feedback is protected. Furthermore, the researcher seeks the participants' consent to gather valuable information, which contributes to obtaining reliable, accurate, and robust data for enhancing the final research findings.

3.8. Data Analysis

The researcher performed a descriptive data analysis to examine the collected data. The choice of descriptive analysis was based on its ability to identify and highlight important patterns and current phenomena relevant to the launch of the capital market in Ethiopia.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

This study draws its primary data from two sources. The first data was gathered through interview with individuals who are working at the Ethiopian capital market Authority (ECMA) and other stakeholders. Secondly, this researcher obtains its data from interview with people who are actively involved in the Ethiopian investment holders (EIH). After analyzing the gathered data, this chapter will offer findings of the study.

4.1. Summary of Data Analysis

Interview Questions and Participants Response for Ethiopian Capital Market Authority (ECMA) And Other Stakeholders

#	Questions	Participants response
1	In your view, what are the top three pre-requisites of launching capital market in Ethiopian?	<p>R1. “In my view the top three pre-requisites launching capital market in Ethiopia are government willingness, growing economy, and political stability.” Participant added, “the growing economy is more dependent on the political stability and both factors separately mandatory for the launching of capital market.” Participant further explained, “the government willingness for the launching of capital market is vital. In this regard the current Ethiopia government is working to establish the capital market in short period of time.”</p> <p>R2. “Technological infrastructure, robust regulatory institution, and regulatory frameworks are the three pre-requisites of launching capital market in Ethiopia.” Participant noted, “Ethiopian capital market authority (ECMA) has a great role for the establishment of capital market; therefore, the institution must develop qualified professionals, modern regulatory technology that can be able to control and administer the capital market.”</p>

		<p>P3. “The technological infrastructure is one of the top pre-requisites of launching capital market in Ethiopia because it is impossible to launch capital market without fast internet connection, trading system, payment system and regulatory system of infrastructure; otherwise, it will be like having mobile phone without electricity.” Participant added “there is no doubt about the importance of laws, regulations, directives and other related materials for the launching of Ethiopian capital market.”</p> <p>R4. “Political stability, growing economy and technological infrastructure are the three main pre-conditions for the launching of Ethiopia capital market.”</p> <p>R5. “Robust regulatory body, good technological infrastructure and government role in stabilizing political and economic condition are the three pre-requisites for the launching of Ethiopia capital market.”</p>
2	<p>What are the challenges that the Ethiopia capital market authority is facing regarding introducing capital market?</p>	<p>R1. “One of the challenges of the ECMA that facing regards of introduce capital market is leading change demanding operations. Because the tasks of capital market by nature not completed in one formal ways, it need time and developed through a time.”</p> <p>R2. “The expected challenge is the challenge of managing different players and complicated nature of the capital market. The players and the functions are vast in the capital market regarding to the nature of complication challenging the ECMA in the introducing capital market.”</p> <p>R3. “Proactively checking and controlling the impact of ongoing</p>

		<p>capital market on the whole economy and systemic risk is a serious challenge for the ECMA and other directly related stockholders.”</p> <p>R4. “Related to the lateness of regulations contrasting with the planed launching date of Ethiopia capital market ECMA will have a challenge in the work of public awareness.”</p> <p>R5. “The most difficulty’s for ECMA in the launching processes of capital market are developing intermediary institution, increasing the attractiveness of the capital market and controlling and ensuring the transparency of the capital market.”</p>
3	<p>How ready is Ethiopia in accommodating technological infrastructures to launch and facilitate capital market?</p>	<p>R1. “The Ethiopian capital market will use electronic trading system for the trading and managed by central depository system which can ease the security exchange process and to ensure the transparent controlling system.”</p> <p>R2. “The country successfully implemented the online payment modality for the purchase of fuel which indicated that the online payment system can proceed without any obstacle.”</p> <p>R3. “The country intranet connection can serve the expected capital market exchange. At this the initial stage of the capital market exchange the telecom service can be adequately assisted.”</p> <p>R4. “Ethiopia has two telecom companies and working to add telecom companies for the country which advance the telecom services. Ethio Telecom is permitted to provide mobile financial service. Likewise, it is expected that Safaricom Ethiopia will eventually introduce its popular M-Pesa mobile banking product once National Bank of Ethiopia approve its permit request.”</p>

		<p>R5. “Broadened the service of telecom one of a signal government readiness for the facilitation of capital market without any barrier. Competition in Ethiopia’s telecom sector ramps up, mobile penetration continues to rise, and mobile money integrates into Ethiopians’ everyday lives, opportunities for ancillary fintech services such as e-commerce, lending, transfers, and other mobile apps are similarly poised to grow. Such activities can guarantee the launching of capital market exchange without any barrier of telecom service.”</p>
4	<p>What are the impacts of the current political climate (Ex. The war in the north) and the unstable economic situation (Ex. the growing inflation) on the launching of capital market in Ethiopia?</p>	<p>R1. “The war in the northern part of Ethiopia was settled with negotiation and the remaining part of unstable political situation handled through negotiation therefor the current political condition isn’t affected the launching of capital market. On the other hand, the establishment and strengthening capital market also very important for the fostering of economy and safeguard financial activity of the country. B/c the capital market enables for the government to collect working capital from financial market and also the collecting money in the capital market allocate for the right investors.”</p> <p>R2. “The current Ethiopia political condition is turned to peace after negotiations that end north war. That has a benefit to launching capital market. When come to the economic, there is no better time than today to launch a capital market in Ethiopia even if the current Ethiopia economy challenges are both internal and external sources. The external reasons are the global impact that was Russia and Ukraine war and tension between developed countries. The internal challenges are the impact of political instability and weak economic trends. In this aspect the Ethiopia government should run its change making projects by minimizing the effect of both external and internal challenges.”</p>

		<p>R3. “The northern part of the war ended through peace agreement has big impact for the economy and attracting foreign investment on the capital market but still there are so many issues not solved in the Oromia and Amhara regions. This indicated that Ethiopia can’t reach on the stable political realm in the short period of time, in fact this situation not obstacle for the launching of capital market but it affects the effectiveness. In similar way, the current Ethiopia economic conditions do not affect the launching of capital market.”</p> <p>R4. “Ethiopia does not assure full stability in the political aspects as such the current political situations may not be a big factor for the launching of capital market, but it has own negative impact on the effectiveness of the capital market especially on the attractiveness of foreigners on the capital market and investments. likewise, the launching of the capital market that the country in the situation of economy crises which means allowing foreigners enter the economy (privatization) which leads the country on the hands of others.”</p> <p>R5. “Following of the Kenya negotiation b/n the Ethiopia central government and Tigray regional government, the political condition become good, which have a favor for the launching of capital market. On the other hand, the launching of the capital market enhances the country financial sector, which has its own role for the growth of the country economy.”</p>
5	<p>What gaps do you see around laws, regulations, directives, and other documents related with Ethiopian capital market?</p>	<p>R1. “Ethiopia has well-structured capital market Proclamation (Proclamation No.1248 /2021) which prepared under the consideration of others experienced countries capital market regulations and through the adoption of standards for securities regulation disclosed by International Organization of Securities Commissions (IOSCO).”</p>

		<p>R2. “Ethiopia already has written capital market Proclamation, there is no gap to implement the proclamation.”</p> <p>R3. “Additional to the proclamation of capital market, ECMA presenting three directives for public consultation namely: Directive on licensing and operating securities exchanges and trading platforms, Directives on Recognition of Self-Regulatory Organizations and Directive on Capital Market Service Providers Licensing and Supervision. On the directives critical points are not mentioned clearly and specifically, we can take as an example the minimum capital amount for listing requirement.”</p> <p>R4. “There is a gap in briefing investment banks lawfully and the National Bank of Ethiopia should prepare brief legal platforms for the established investment banks.”</p> <p>R5. “The delayed work of basic regulation is an obstacle for the establishments of intermediary institution and public awareness works.”</p>
6	<p>Do you support the launching of Ethiopia capital market in 2024/2025? Please justify your suggestion with genuine argument.</p>	<p>R1. “Yes, I support it. But it should be at the end of 2025. Because there are left work tasks, following of the ratification of the three derivatives works like establishing intermediary institution, list of institutions for the capital market and other tasks are need enough time.”</p> <p>R2. “No, I don’t support. Because before starting the capital market exchange activity the ECMA must identified and announce the companies that qualified the listing criterion then the companies should have enough time to advert themselves to sell adequate share.”</p>

		<p>R3. “No, I don’t support. Because the end goals of launching capital market are to make liquid capital market exchange, modernize and growth financial market, securing economic development.in the reverse, if the country fails in financial market the catastrophic is hazardous for the country economy to individual’s day to day economies. That is why suggesting the extending of launching capital market until the basic preconditions fulfilled.”</p> <p>R4. “No, I don’t support.it is due to poor public awareness, Still the institutions and individuals have no full picture of Ethiopian capital market exchange.”</p> <p>R5. “No, I don’t support. The intermediary institutions and individuals should be identified to well establish and the ECMA should check them the abilities to deliver the expected services before the launching of capital market exchange.”</p>
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Interview Questions and Participants Response for Ethiopia Investment Holdings (EIH)

#	Questions	Participants response
1	What are the current challenges and favorable opportunities of EIH in the establishment of Ethiopia capital market?	<p>R1. “The prior work is studying the portfolio of each corporation under EIH needs high number of qualified professionals in this regard EIH has limitation due to different reasons like lack of adequate source of budget. However, at this stage works have done under high pressure and now EIH ready for the launching of capital market.”</p> <p>R2. “One of the challenges, EIH is weak corporate governance practice under their management except few of them.”</p> <p>R3. “At this stage EIH has not any challenge regarding with the launching of capital market. Because EIH is starting its work with existed 26 huge corporations that are considering as a symbol</p>

		institution for the country.”
2	What are the major challenges regarding the corporation’s asset recoding system?	<p>R1. “Except few of the corporation, almost all haven’t digitalized asset recording experience which enforced the EIH worked the asset record from the initial stage. In the asset recording task EIH use its own professionals of each corporation.</p> <p>R2. “The asset recoding works carried out by collaboration work of EIH with each of corporation professional workers that enables the asset recording task completed successfully.”</p> <p>R3. “The asset recording process is being efficiently facilitated and is expected to be completed successfully.”</p>
3	All corporations under EIH are implementing IFRS for the effective output of financial report, please explain how that is helpful for the capital market to be launched in Ethiopia?	<p>R1. “The training to utilize the system of international financial reporting system (IFRS) gave for that last five years in order to capable of the professionals under the EIH corporations. Which enable the corporation to generate the annual financial reports and on time and follow up of financial status of their institutions on daily basis.”</p> <p>R2. “The corporations under EIH have a financial aspects readiness for the launching of capital market exchange.”</p> <p>R3. “Corporations have established robust financial management systems. This readiness is seen as a significant advantage in the lead-up to the launch of the capital market in Ethiopia.”</p>
4	Over 26 different institutions are under the leadership of EIH. What are the challenges that EIH is facing regarding the implementation of corporate governance?	<p>R1. “To improve the corporate governance of the corporations under EIH, each corporations conducted structural and workflow studies by external consultant organizations.”</p> <p>R2. “The new implementation of structural and workflow in organizations expected to have a good corporate governance structure that enable to fit with launching of capital market exchange.”</p> <p>R3. “Almost all corporations are in the work of studying the structure to implement new structures that expect to enhance their corporate governance.”</p>

4.2. Results and Discussion

4.2.1. Ethiopian Capital Market Authority (ECMA)

In this target group, participants were asked to respond to six questions.

4.2.1.1 Top Three Pre-requisites of Launching Capital Market in Ethiopia

In the initial question of the study, participants were asked to identify the three most important prerequisites for launching a capital market in Ethiopia. The responses revealed that key factors include government willingness, a growing economy, and political stability, along with technology infrastructure, a capable intermediary institution, and a well-structured regulatory body represented by the Ethiopian Capital Market Authority (ECMA). However, most participants highlighted government willingness, a growing economy, and political stability as the top three prerequisites.

One participant emphasized the interconnectedness of a growing economy and political stability, stating that both factors are crucial for the successful launch of a capital market. Another participant commended the current Ethiopian government for its dedicated efforts in establishing a capital market within a relatively short timeframe.

Based on the participants' responses, a notable finding suggests that the government holds greater responsibility in demonstrating its willingness to open up the economy, ensure sustained economic growth, and maintain political stability in the country. Internal factors such as technological infrastructure, regulatory frameworks, and the effectiveness of intermediary institutions, overseen by the Ethiopian Capital Market Authority (ECMA), were considered secondary by the respondents in relation to the launch of a capital market in Ethiopia.

4.2.1.2. Challenges of ECMA in Introducing Capital Market in Ethiopia.

The second question inquired about the challenges that the Ethiopian Capital Market Authority (ECMA) faces in introducing a capital market in Ethiopia. Participants identified several challenges in this regard. One participant highlighted the need for time to develop a comprehensive understanding among the public, which would drive practical changes and engagement in the capital market system.

Another participant emphasized the challenge of managing the diverse range of players and the complex nature of the capital market. The multitude of players and their respective functions pose a significant challenge for the ECMA in introducing the capital market in Ethiopia. Additionally, there was an acknowledgement of the need for proactive monitoring and control of the ongoing impact of the capital market on the overall economy and systemic risk. This was seen as a critical challenge for the ECMA, and other stakeholders involved.

Furthermore, a participant expressed concerns about public awareness, particularly related to the timing of regulations in contrast to the planned launch date of the Ethiopian capital market.

From these responses, it can be concluded that the challenges faced by the ECMA regarding public awareness primarily involve managing the diverse range of players and their functions within the capital market. Additionally, proactive monitoring and control of the capital market's impact on the economy are important tasks for the ECMA. To effectively create public awareness, ECMA needs to simplify the complex concepts of the capital market and ensure that people understand its basics. Moreover, ECMA should assume the responsibility of monitoring the ongoing impact of the capital market on the general economy to foster interest and participation in the launch and growth of the capital market in Ethiopia.

4.2.1.3. Technological Infrastructures to Launch a Capital Market in Ethiopia.

The third question examines the readiness of Ethiopia to accommodate technological infrastructures for the introduction and operation of the capital market. Participants provided similar responses regarding Ethiopia's preparedness in this area. One participant mentioned that the Ethiopian capital market would employ an electronic trading system, supported by a central depository system, to facilitate secure and transparent exchanges. Another participant highlighted the successful implementation of an online payment system for fuel purchases, indicating that Ethiopia can handle online transactions smoothly. Additionally, participants noted the sufficient telecom services available during the initial stage of the capital market.

Furthermore, the expansion of the telecom sector in Ethiopia was seen as a positive indicator of the country's technological readiness for launching the stock market. For instance, participants pointed out that Ethio Telecom has been authorized to provide mobile financial services, and there are expectations that Safaricom Ethiopia will introduce its widely used mobile banking

product, M-Pesa, pending approval from the National Bank of Ethiopia. The increasing mobile penetration, along with the integration of mobile money into the Ethiopian economy, supports the feasibility of launching the capital market in Ethiopia.

In conclusion, the study's findings suggest that Ethiopia has the necessary technological infrastructure in place to successfully introduce the capital market system in the country.

4.2.1.4. The Impact of Current Political and Economic Situation in Ethiopia

The fourth question addresses the influence of the present political climate, specifically the conflict in the northern region, and the unstable economic conditions characterized by increasing inflation, on the introduction of the capital market in Ethiopia. In response to the political climate, three participants indicated that the negotiations and resolution of the conflict in the northern part of the country alleviate concerns and do not significantly hinder the launch of the capital market. However, two participants held a differing view, stating that although the conflict in the north has been resolved, ongoing conflicts in other regions pose challenges and create a somewhat unstable political environment. While this may not greatly impede the launch of the capital market, it does affect its effectiveness, particularly in attracting foreign investors.

Regarding the economic situation, one participant emphasized that despite the internal and external economic challenges, there is no better time than the present to introduce a capital market in Ethiopia. They believed that the government should effectively manage their projects for change, taking into account both internal and external challenges. Another participant highlighted the importance of establishing and strengthening the capital market as a means to generate working capital from the financial market and allocate funds to the appropriate investors, thereby contributing to the country's economic growth.

In summary, based on the responses concerning the current political and economic circumstances in Ethiopia and their impact on the introduction of the stock market, this study concludes that the existing political climate and economic conditions do not pose significant obstacles to the launch of the capital market. However, they do have some influence on the effectiveness of the Ethiopian capital market, with one participant expressing concerns about the potential implications of introducing the capital market during an economically volatile period, particularly in terms of foreign involvement and the country's autonomy.

4.2.1.5 Regulations for the Launching of Capital Market in Ethiopia

The fifth question aims to identify any gaps perceived by participants regarding laws, regulations, directives, and other documents related to the Ethiopian capital market. One participant emphasized that Ethiopia has already prepared the Capital Market Proclamation (Proclamation No. 1248/2021) by drawing upon the capital market regulations of experienced countries and adopting standards recommended by the International Organization of Securities Commissions (IOSCO). According to this participant, the implementation of the proclamation does not pose any gaps.

However, other participants highlighted certain concerns. They mentioned that the Ethiopian Capital Market Authority (ECMA) has introduced three directives for public consultations, specifically addressing licensing and operation of securities exchanges, recognition of self-regulatory organizations, and licensing and supervision of capital market service providers. These participants expressed that these directives lack clear and specific guidelines, citing the example of the minimum capital requirement for listing. Another participant pointed out the need for comprehensive legal platforms to guide investment banks in a lawful manner, suggesting that the National Bank of Ethiopia should develop such frameworks.

Based on the participants' responses, it can be concluded that there is a general perception among participants that further work is needed to refine and clarify regulations in order to facilitate the functioning of the capital market platform. The existence of clear legal frameworks is viewed as essential for the establishment of intermediary institutions and addressing regulatory requirements, which presents a challenge in adhering to the planned schedule for launching the capital market.

4.2.1.6. The Assessment of the 2024/2025 Capital Market Launching in Ethiopia

The final question sought participants' opinions on whether they support the introduction of the Ethiopian capital market in 2024/2025, as well as their justifications for their stance. While the majority of participants expressed their support for the launch, they expressed concerns about the timeframe. One participant suggested extending the launch date to the end of 2025 to allow for adequate preparation and to ensure the liquidity of the capital market. Another participant

emphasized the need for companies to have sufficient time to meet listing criteria and promote themselves effectively. They also stressed the importance of establishing capable intermediary institutions before initiating the capital market exchange. Participants acknowledged the goals of the capital market but cautioned against mismanagement, highlighting the potential negative impact on the country's economy and people's daily lives. Lack of public awareness was also identified as a concern, with participants noting the need for greater understanding of the Ethiopian capital market among institutions and individuals. Overall, participants supported the launch of the capital market but cited concerns about the limited timeframe for preparation and the need for improved public awareness.

4.3. Ethiopia Investment Holdings (EIH)

In this target group, participants were asked to respond to four questions.

4.3.2.1 EIH Challenges and Favorable Opportunities

The initial question addresses the current obstacles and advantageous prospects for EIH (Ethiopian Investment Holding) in its efforts to establish a capital market in Ethiopia. One participant emphasized the challenge EIH would encounter in thoroughly analyzing the portfolios of each corporation under its purview, necessitating a substantial number of highly skilled professionals. Another participant added that due to various reasons, particularly a lack of adequate funding, EIH faces limitations in addressing this challenge effectively. On a positive note, a participant highlighted the advantage EIH holds in launching the capital market, citing its existing composition of 26 prominent corporations that are widely regarded as emblematic institutions within the country.

4.3.2.2 EIH Corporation's Asset Recording Assessment

The second question addresses the primary difficulties related to the asset recording system of the corporation. Participants' responses indicated that EIH is not currently encountering challenges in this aspect. Conversely, participants stated that EIH is well-positioned in terms of its asset recording system. For example, one participant mentioned that, except for a few corporations, all EIH entities have implemented digitalized asset recording systems managed by their own dedicated professionals. This indicates that EIH has an ample pool of qualified

personnel who can contribute effectively to the successful launch of the capital market in Ethiopia. Another participant echoed this sentiment, confirming that the asset recording process is being efficiently facilitated and is expected to be completed successfully.

4.3.2.3 EIH Corporation's IFRS Implementation Assessment

The third question explores the implementation of the International Financial Reporting System (IFRS) within EIH and its significance for the upcoming launch of the capital market in Ethiopia. Participants unanimously reported that all EIH corporations have successfully adopted IFRS for their financial reporting. They were asked to elaborate on how this adoption would facilitate the launch of the capital market.

According to participants, significant efforts have been invested in training and developing the professional skills of individuals working within EIH corporations. Over the past five years, comprehensive training programs have been conducted to ensure proficiency in utilizing the IFRS system. This training has empowered the corporations' professionals to produce accurate and timely financial reports, as well as monitor their institutions' financial status on a daily basis. Consequently, the implementation of IFRS has strengthened transparency and accountability within EIH.

Additionally, participants emphasized the readiness of EIH corporations in terms of financial management. By aligning their practices with IFRS, these corporations have established robust financial management systems. This readiness is seen as a significant advantage in the lead-up to the launch of the capital market in Ethiopia.

Overall, the adoption of IFRS within EIH has yielded benefits such as improved financial reporting accuracy, timely information availability, and enhanced financial management practices. These achievements position EIH corporations favorably as they prepare for the introduction of the capital market in Ethiopia.

4.3.2.4 EIH Corporation's Governance Implementation Assessment

The fourth and final question explores the challenges faced by EIH in implementing corporate governance across its 26 constituent institutions. Participants acknowledged the need for improvement in EIH's governance practices. They emphasized the importance of conducting structural and workflow studies through the involvement of external consultant organizations to enhance corporate governance within each corporation.

Participants highlighted the significance of implementing new structures and workflows that align with good corporate governance practices. They recognized that a well-established corporate governance framework is essential for the successful launch of the capital market exchange in Ethiopia.

Overall, the participants identified the need for EIH to prioritize and invest in enhancing corporate governance across its diverse institutions. They recommended conducting external studies and implementing structural changes as crucial steps towards achieving effective corporate governance that aligns with the requirements of the forthcoming capital market launch.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1. Conclusions

This research aimed to provide an updated analysis of the challenges and favorable conditions associated with establishing a capital market in Ethiopia. The study also sought to understand the reasons behind the delay in launching the capital market since its initial plan in 2018 by the Ethiopia Stock Exchange Authority and other relevant entities.

The primary research question addressed in this study was to identify the current problems and favorable factors that could impact the successful launch and operation of a capital market in Ethiopia. To answer this question, a case study method was employed, and primary data was collected through interviews with individuals from the Ethiopian Capital Market Authority (ECMA) and Ethiopian Investment Holdings (EIH).

The findings of the study indicate that the current political and economic conditions in Ethiopia do not pose a significant hindrance to the launch of a capital market. However, two key challenges identified are the effective liquidity of the capital market exchange and the lack of public awareness about the concept of a capital market in Ethiopia. These concerns may have contributed to the decision to delay the launch of the stock market in the country.

The successful establishment and growth of a capital market in Ethiopia require coordinated efforts from various stakeholders. Firstly, the government needs to demonstrate its willingness to open up the economy, ensure sustainable economic growth, and maintain political stability. Secondly, the Ethiopian Capital Market Authority (ECMA) should address internal matters such as technological infrastructure, regulatory frameworks, and intermediary institutions. Thirdly, Ethiopian Investment Holdings (EIH) has made progress in preparing its affiliated corporations in terms of financial management, which can significantly contribute to the launch process. However, there is a need for EIH to improve its corporate governance practices to create a secure investment environment within Ethiopia's capital market.

Despite these efforts, participants in the study suggest that the launch of the capital market in Ethiopia should be postponed until the end of 2025 or later. This extension is recommended to allow for the completion of pending tasks and to enhance public awareness about the capital market concept in Ethiopia.

5.2 Recommendations

- The government of Ethiopia plays a vital role in ensuring the political and economic stability necessary for the capital market. It should create an enabling environment that encourages investment in Ethiopia's capital market.
- The government should continue its efforts to liberalize and privatize the economy, fostering opportunities for growth and investment in the capital market.
- The Ethiopian Capital Market Authority (ECMA) needs to prioritize the adoption of efficient technological infrastructure, competent personnel, well-established intermediary institutions, and robust regulatory frameworks as prerequisites for launching the capital market.
- The ECMA should exercise caution and make informed decisions when drafting laws and regulations, particularly concerning listing requirements based on minimum capital amounts. Collaborating with the government, the ECMA can establish legal bodies to prepare private companies for the anticipated demands of the capital market.
- The challenges that arise in the functioning of the Ethiopian capital market should be collectively addressed by the government, ECMA, Ministry of Finance, National Bank of Ethiopia, and other stakeholders, through collaborative efforts and creative problem-solving.
- To safeguard the economy from systemic risks, the ECMA should prioritize the training of a sufficient number of professionals capable of effectively overseeing and leading all aspects of the capital market.
- Extensive awareness programs conducted by the ECMA are necessary to encourage increased participation of institutions and individuals in the capital market exchange.
- Ethiopian Investment Holdings (EIH) has been successful in training and employing highly qualified professionals in financial management. The ECMA should consider leveraging their expertise to contribute to the launch of the capital market exchange in Ethiopia.

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Embassy of Ethiopia, Washington D.C, 2023

APPENDIX A

Interview Questions for Ethiopian Capital Market Authority (ECMA) and Other Stakeholders

I am Samuel Tedla, a postgraduate student at Addis Ababa University School of Commerce in Department of Business Leadership. I am conducting academic research in partial fulfillment of my study regarding “Assessing the Problem and Favorable Conditions of Launching a Capital Market in Ethiopia.”

By continuing with this survey, you indicate your willingness to participate in this study.

1. In your view, what are the top three pre-requisites of launching capital market in Ethiopian?

2. What are the challenges that the Ethiopia capital market authority is facing regarding introducing capital market?

3. How ready is Ethiopia in accommodating technological infrastructures to launch and facilitate capital market?

4. What are the impacts of the current political climate (Ex. The war in the north) and the unstable economic situation (Ex. the growing inflation) on the launching of capital market in Ethiopia?

5. What gaps do you see in the area of laws, regulations, directives and other documents related with Ethiopian capital market?

6. Do you support the launching of Ethiopia capital market in 2024/2025? Please justify your suggestion with genuine argument.

APPENDIX B

INTERVIEW FOR ETHIOPIA INVESTMENT HOLDINGS (EIH)

I am Samuel Tedla, a postgraduate student at Addis Ababa University School of Commerce in Department of Business Leadership. I am conducting academic research in partial fulfillment of my study regarding “Assessing the Problem and Favorable Conditions of Launching a Stock Market in Ethiopia.”

By continuing with this survey, you indicate your willingness to participate in this study.

1. What are the current challenges and favorable opportunities of EIH in the establishment of Ethiopia capital market?
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2. What are the major challenges regarding the corporation’s asset recoding system?
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3. All corporations under EIH are implementing IFRS for the effective output of financial report, please explain how that is helpful for the capital market to be launched in Ethiopia?
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4. Over 26 different institutions are under the leadership of EIH. What are the challenges that EIH is facing regarding the implementation of corporate governance?
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