ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION

ESSENTIAL REQUISITES FOR ESTABLISHING INSTITUTIONALIZED SECONDARY MARKET IN ETHIOPIA: LESSONS FROM OTHER DEVELOPING COUNTRIES

BY:

DAGIM YOHANNSE

JUNE 2021

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A THESIS SUBMITTED TO OF ADDIS ABABA UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION IN FINANCE

ADVISOR:- ABEBE YITAYEW (Ph.D.)

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Statement of Declaration

I hereby declare that this thesis, titled "Essential Requisites for Establishing Institutionalized Secondary Market in Ethiopia: Lessons from Other Developing Countries," hereby submitted by me in partial fulfillment of the requirements for Degree of Masters of Business Administration in Finance at Addis Ababa University, is my original work and has not been presented for the award of any degree in any other University or institution. I have undertaken it independently with the advice of my advisor, Abebe Yitayew (Ph.D.). In performing the thesis, I have used different sources and material which have been properly acknowledged.

Declared by: Dagim Yohannse

Signature_________________

Addis Ababa University

School of Graduate Studies

This is to certify that the thesis prepared by Dagim Yohannse, title: Essential Requisites for Establishing Institutionalized Secondary Market in Ethiopia: Lessons from Other Developing Countries," required to submit in partial fulfillment for the Degree of Master Business Administration in finance act under the University's regulations and meets the accepted standards concerning originality and quality.

Signed by the Examining Committee:

Advisor:	Signature:	Date:
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Name:__________________________	_______________	_______________
External Examiner:	Signature:	Date:
Name: ___________________	_______________	__________________

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Acronyms

AACCSA:	Addis Ababa Chamber of Commerce & Sectoral Associations
BOD:	Board of directory
CBE:	Central bank of Egypt
CBN:	Central bank Nigeria
CMAK:	Capital market authority of Kenya
CSCS:	The Central Securities Clearing System
CSD:	Central security depository
EGX:	Egyptian Exchange
EME:	Emerging market economy
ETCCSA:	Ethiopian Chamber of Commerce & Sectorial Associations
IOSCO:	International Organization of Securities Commissions
NBE	National bank of Ethiopia
NSE:	Nairobi stock exchange
RSB	Regulatory and supervisory body
SEC:	Securities and Exchange Commission
SRO:	Self-regulatory organization
SSS:	Securities settlement system

Abstract

The objective of the study was to assess & examine Essential requisites for establishing an institutionalized secondary market in Ethiopia using lessons from other developing countries. The research used a mixed approach with descriptive research design and the study used both primary and secondary data as Cross-section by nature using purposive and simple random sampling techniques to select the sample. The number of respondents was 32 from banks, 34 from insurers, 6 from pension institutions, 8 from ECX, 6 from Ethiopia and Addis Ababa Chamber of Commerce & Sectorial Associations and 81 from Share Company's a total of 167 samples used to form the target population. In addition to this secondary data was used from relevant sources. SPSS used to analyze data and findings were presented by using tables accompanied by a brief explanation. Besides, the qualitative data were analyzed through narrative explanation. The result revealed that there is promising demand, i.e., availability of a company to enlist in the supply side was visible. The findings also indicated that it is essential to have a standard Corporate Governance system in place, strong regulatory body, capacitated judiciary system, uniform accounting, and audit system & standards, trading, and clearing and settlement infrastructure, brokerage firms and investment bank, increased awareness of investors, trained and skilled manpower. Besides, a commitment of the government to support the market, stable macro economy are found to be essential requisite for establishing institutionalized secondary market in Ethiopia. As to their presence currently, there is promising demand and infrastructure, as far as the government commitment and promises are concerned, they are being put in place. Hence, starting and refining it through time is what the author has as a recommendation- Placing regulatory body and start and control the basic tasks, starting awareness creation programs for financial sectors related to their role in the market, updating the proclamation of pension funds, and improve their capacity, train the judiciary system, develop central deposit system, establishing investment bank and develop the market sequentially.

Keywords: secondary market, legal and regulatory infrastructure, and market infrastructure

CHAPTER ONE

INTRODUCTION

1.1. Background

The financial market is an institution or an arrangement that facilitates the exchange of financial instruments among investors. It comprises the capital market and money market, where the money market facilitates the flow of short-term funds like treasury bills, the capital market facilitates the flow of long-term funds from those who have excess funds to those who are in shortage for running their investment. The Capital markets also comprise both Primary and Secondary Market; the Primary market is the market that deals with issuing new shares in order to raise funds. However, the secondary market is the market that traded already floated securities instruments to encourage the market to become more liquid. Thus, Capital markets can be defined as Stock Market or Secondary Market (Francisco, Alecsandro, 2010).

The significance of the secondary market in the economy is crucial for growth, new investment, and facilitating long-term asset management. In addition, it is now universally agreed that no modern economy can flourish without an effective and well-managed secondary market. Due to this fact, the developing countries have been giving serious attention to the development of the secondary market or stock market to boost their saving rate, to increase the quantity and the quality of investments, and to enhance liquidity in their economy (Hamza, 2013).

The development of the modern secondary market has started in the 19th and 20th centuries, led by the London Stock Exchange and New York Stock Exchange. And now, there are 60 secondary markets in the world and 48,000 companies have been listed and traded, and their market capitalization has reached 95 trillion USD. On the other side, the development of the secondary market in Africa started 15 decades ago in Egypt and South Africa, and now there are 30 secondary markets in Africa in 40 nations, and 1766 companies have traded in the market, and their market capitalization reached 3.5 trillion USD (Raubenheimer, 2020).

Ethiopia also had started to develop the secondary market in 1950 even though it was officially established 10 years later. Since, it was in toddling stage, minor impact on the growth of economy and a small number of participants. However, it pioneered modernization in the financial market by developing a share dealing group to communicate seller and buyer as a secondary market in the country. This continued only till 1974 in which the military government disbanded the group. Since, Ethiopia has no secondary market in any form (Tessema, 2003).

Despite the absence of a secondary market in the country, various stakeholders like scholars, academicians, and business organizations have been conducting different studies locally as well as internationally. Those studies have intended to point out challenges that hinder the establishment of the secondary market, preconditions that should be fulfilled, and opportunities to start the secondary market.

To mention some of these studies, in 1995 the National bank of Ethiopia had conducted a study titled "Feasibility of Establishing of Securities Exchange Market in Ethiopia". They tried to prepare a draft security and exchange proclamation, though not applied. Again in 2000, AACCSA had taken their initiation by developing Stock exchange rules and regulations which included Membership requirements, Listing Rules, Requirements for issuers, Trading Rules, and Rules for Payment and Settlement. Again, this was also not implemented because of the reluctance of the Government (Ruecker, 2011).

Asirat (2003) conducted a study titled "The Potential and Challenge of Developing the Security Market in Ethiopia." He attempted to demonstrate the feasibility, economic gain, and cost of a well-functioning secondary market, as well as the prerequisites for establishing a Secondary Market in Ethiopia.

Furthermore, Abebe (2006) indicated the importance of stock exchanges as an alternative to term-loan financing and its questionable development. And in that particular article, titled "An alternative to term-loan financing on the horizon, its creation dubious: securities market, the missing link", Abebe tried to cover the advantages, as well as the history of the stock exchange in our country, its role in economic growth, and the environment at the time.

The East African Security Exchange Company also published a study by Tadewos Harege-Work and Araya Debesay titled "Towards the Creation of a security Market in Ethiopia" with a smaller content. The studies looked at the importance of establishing a capital market in Ethiopia and the reasons for doing so. They advocated for the establishment of a security market, citing its importance in the country's growth (Ruecker, 2011).

Now, after a four-decade journey, Ethiopia is in a solid position to start up the country's secondary market, since 2018, the Ethiopian government has shown its interest and commitment to establish the secondary market in the country (The Reporter, 2019).

1.2. Statement of the problem

Despite the absence of the secondary market in the country, various researchers, private organizations, universities, and others have been conducting different studies to find out the feasibility, the Preconditions, prospects and challenges, and the economic gain related to the establishment of the stock market in the last few years. Among them: Tessema (2003), NBE (1995), Ruecker (2011), Kabtyemer (2015), Mulat (2016), Belgu (2018), Teklay (2011), Teklehaimanot (2014), Yimer (2011), Gizachwe (2019) and Hailu (2020).

Teklay (2011) indicated that; Ethiopia should consider the establishment of the stock market in which by indicating the increasing the no of shares companies in the country from time to time, and the challenges of shareholders to liquidate their assets with reasonable price and time, and also, the difficulty of companies to rise their capital for new investment and expansion of their exiting one.

Kiflework (2018) conducted a study titled "Should Ethiopia Consider Establishing Stock Market?". In this study, he strengthened the Teklay (2011) conclusions by indicating additional points that support his conclusions. Which are; the growth of private sectors, increasing of government activities to transfer of the public organization into the private sector, the presence of large illiquid assets in the market, and the increasing innovators and entrepreneurs' activities.

Another study conducted by Kabtyemer (2015) titled "is Ethiopia ready to institute stock exchange market" suggests that despite the acclaimed benefits, establishing a stock market in Ethiopia may not be a smooth process as some of the pre-requisites are not fulfilled in the country since there are government's reluctance, no regulatory framework, and institution, low- level corporate governance, no standardized auditing, and accounting.

In Addition, Tessema (2003), Ali (2016), Ejigu (2017) Gizachew (2019), and Recently Hailu, (2020) have conducted studies to address the prospect and challenge of establishing a stock market in Ethiopia. In their findings, they indicated the challenge as; lack of public confidence and institutional capacity, the underdeveloped government of the bond market, absence of input by the business community in the formulation policy, inadequate institution and legal framework, low level quality and quantity financial services, accounting and auditing gaps, and under development of technological infrastructure.

They also pointed the opportunities as; the existence of intuition like a country pension fund and insurance companies, incentive programs for investors, the interest of foreigners to invest in the country, the development of financial sectors, and the current initiative of the government to establish the stock market as an opportunity. They also revealed the advantage of establishing a secondary market as it will solve liquidity problems for shareholders, minimize the difficulty of companies to rising capital for new investment and growth of their investment, it will improve the accounting and auditing standard and corporate governance, and also increase investors who will participate in the stock market to generate liquidity.

But there is a gap in the prior research, to address the basic essentials that have to be placed to develop effective legal and market infrastructure, like the significance of central security depository to develop market infrastructure and also the significance of self-regulatory and the special court to development of legal and regulatory infrastructure in the development of the secondary market in Ethiopia. In addition, to indicate, the readiness of supply-side to enlist in the secondary market, presence of promising of demand, the role of intermediary's firms like brokerage firms and investment bank, to show the current status related to legal and market infrastructure and lessons learned from other developing countries experience related to the development of the secondary market in Ethiopia.

1.3. Research questions

Based on the above statement of the problem and the following research questions were raised as follows:

1. What are the Essential Requisites for Establishing Institutionalized Secondary Market in Ethiopia?
2. What are the essentials needed to develop legal and regulatory infrastructure?
3. What are the requisites to develop security market infrastructure?
4 How is the accounting and auditing system & standards for establishing Institutionalized Secondary Market in Ethiopia?

5 what is the status supply side for Establishing Institutionalized Secondary Market in Ethiopia?

6 whether the demand is promising for establishing Institutionalized Secondary Market in Ethiopia?

1.4. Objective Of the Study

The general objective of the study is to assess and examine Essential Requisites for Establishing Institutionalized Secondary Market in Ethiopia lessons from other developing countries under considering Ethiopian current context.

1.5. Specific objective

The specific objectives of the study are

- Examine Essential Requisites for establishing Institutionalized secondary market in Ethiopia
- Assess the legal and regulatory infrastructures to Institutionalized Secondary market in Ethiopia in Ethiopia
- Assess the market infrastructures for establishing Institutionalized Secondary in Ethiopia
- Assess accounting and auditing reporting system and standard for establishing to Institutionalized Secondary in Ethiopia
- Assess and examine the feasibility and readiness of the supply-side for establishing an Institutionalized secondary market in Ethiopia
- Assess and examine the feasibility and the presence of promising the demand-side for establishing Institutionalized Secondary in Ethiopia

1.6. Significance of the study

The study's findings and recommendations would be useful for different government institutions like the national bank and the ministry of finance and pension funds.in addition, it would be useful for financial intuitions like banks and insurance, individual investors, and other business sectors as supporting material related to the secondary market. The study would also benefit business officials, individual investors, and others who have a role and interest directly or indirectly in the establishment of a secondary market since it highlights certain areas where corrective steps can be taken before the market's opening. Furthermore, this research can be used as an input and a starting point for other studies, academicians, consultants, and organizations conducting similar research.

1.7. Scope

The scope of study bounded on Essential Requisites for Establishing Institutionalized Secondary Market in Ethiopia lesson from developing countries. In this regard, the paper discussed major areas which are Essential Requisites for Establishing Institutionalized Secondary market; legal and regulatory infrastructure, market infrastructure, supply and demand-side analysis, accounting and auditing reporting standard, and other basic foundations for establishing Institutionalized Secondary Market in Ethiopia such as government commitment, political stability, macro-economic condition, intermediaries firms, awareness of investor and trained manpower. In addition, the study applied used both primary and secondary data, the primary data collected from the national bank, ministry of trade, bank and insurance, pension funds, Ethiopia and Addis Ababa Chamber of Commerce & Sectorial Associations, accounting and audit board for Ethiopia, and share companies. Whereas the secondary data was collected from different research, journal, international standard sitters like IOSCO, IMF, World Bank, world stock exchange, and developing country experiences like Nigeria, Egypt, and Kenya.

1.8. Limitation of the study

The study is limited to measure the readiness of supply-side out of the bank sectors and addressing the share companies out of Addis Ababa due to time and financial constraints. In addition, it is limited to measure the stability of macro economy condition using different parameters where the study only measured by GDP and inflation rate. Furthermore, the study was limited to take more qualitative data because of the coved

1.9. Organization of the study

The study is organized into five chapters. The first chapter states the background of the study, statement of the problem, research question, and objective of the study, the scope of the study, the significance of the study and organization of the paper, Chapter two presents; literature review which included theoretical and empirical reviews regarding the study area, chapter three; research methodology of the study, then chapter four stated about the data analysis and interpretation and the last chapter conclusion and recommendations and future research direction.

CHAPTER TWO

2. LITERATURE REVIEW

The literature review provides both theoretical and empirical concepts on Essential Requisites for Establishing Institutionalized Secondary Market in Ethiopia- Lessons from other Developing Countries.

2.1. Definition and conceptual foundation on Secondary Market

The secondary market is the market that traded already floated securities instruments to encourage the market to become more liquid among the investors. The main participants or investors in the market are pension funds, financial institutions, governments (municipal or regional), and corporations. The existence of a secondary market increases the willingness of the investors to participate in the primary markets, as they know they can liquidate their asset when they needed at a fair price (Oganga, 2019).

Acharya (2019) defines the secondary market as a platform or the market where security instruments are traded without the intervention of the issuing company. It means that investors can freely buy and sell shares without the intervention of the issuing company. In these transactions among investors, the issuing company does not participate in income generation. And share valuation is rather based on its performance in the market. Income in this market is generated via the sale of shares from one investor to another.

A secondary market is a market where outstanding financial instruments are traded among investors. The primary market is used for capital formation, while the secondary market facilitates only liquidity and marketability of outstanding financial instruments. In addition, it allows for investors to sell their shares to other investors in order to lower their investment risk and retain system liquidity (Worke & Gujral, 2021).

A secondary market is sometimes referred to as the stock exchange market, where investors sell and buy already owned financial instruments to prospective buyers. And, the price formation is based on demand and supply. The main financial instruments which are traded on the secondary market are shares, debentures, bonds, bills, futures, options, mutual funds, and mortgage securities. The trading takes place on the stock exchange through stockbrokers or the investor themselves over-the-counter (Oganga, 2019).

2.2. The Role of the secondary market:

Promoting liquidity: The secondary market creates liquidity in the market by providing an avenue for investors to sell their financial instruments that are already owned to prospective investors in exchange for money. Hence the secondary market plays a significant role by promoting liquidity in an economy while it would be a little amount of investment in the economy (Oganga, 2019).

Increase mobilizing saving rate: Where the market provides alternative financial vehicles for individuals and institutions according to their risk preference and liquidity need. Thus, it is significantly increasing mobilizing saving rates in the economy (Otchere, 2008). The role of

Control on company management: the secondary market has a role to monitor the market to works efficiently, fairly, and transparently. Over the decades, the secondary market has been raising requirements for new corporations to seeking listing. These requirements relate to the submission of all financial information regarding to the companies whose securities are sold on the stock exchange. Such requirements exercise control on a company's management and keep its malpractice in check. Additionally, the market forces the corporate disclosure of all financial information regularly, timely, and as a standard form (Musonera & Safari, 2008).

Deconcentration of ownership structure: The secondary market creates an opportunity for individuals and institutions to invest out of their industry thus enhance saving mobilization in the economy and also it creates wider participation in enterprise management also wider distributions of corporate profit. this allows deco centration of ownership structure in the corporate (Tessema, 2003).

2.3. Essential Requisites for Establishing Institutionalized Secondary

2.3.1. Economic Essential Requisites

2.3.1.1. Stable macroeconomic conditions

One of the most vital conditions for the establishment of a stock market is the stability of the macroeconomic condition in which the development of the stock market is influenced by macroeconomic stability which is related to income, GDP, and inflation rate. The stability of macroeconomic conditions affects the profitability of the investors. In effect, Stock markets in countries with a stable macroeconomic environment should experience better growth than the countries with lower stable macroeconomic environments (Zedadra et al, 2019).

2.3.1.2. **Commitmen**t of **Government**

The government plays a key role to establish robust and competitive secondary markets in the country. This includes the establishment and implementation of a clear legislative structure to protect the interests of creditors and shareholders, furnishing the supervisory and monitoring body with sufficient authority, ensuring the presence of adequate requirements for transparency and the quality of information, by promoting institutional investors to participate in the mark by developing encouraging policies. besides, the government should play a critical role in providing the infrastructure required to enable the flow of information and the price discovery process by building a variety of infrastructures related to modern payment systems as well as physical layout (El-Wassal, 2013).

2.3.1.3. Adequate demand or diversified investor bases

The other key economic Requisite is the presence of a diversified investor base that can utilize investment opportunities in the market. Investors' bases include local institutional investors, foreign investors, and retail investors with different time investment horizons and risk preferences. Local institutional investors mainly include insurer companies, mutual funds, pension funds, and collective investment funds (Acharya, 2019).

A diversified investor base plays a significant role in the development of secondary markets in emerging markets by improving market competitiveness and liquidity, financial innovation, transparency, information disclosure practices, and corporate governance. Furthermore, under underdeveloped local secondary markets, institutional investors can help individuals to diversify their assets towards an abroad market base (El-Wassal, 2013).

2.3.1.4. Adequate supply or availability financial product

Additionally, the availability of financial instruments that respond to the demand of the market, such as publicly-traded shares of the company, government, and corporate bonds, and other securities are also an economic Requisite. This is related to the readiness of the corporations to be listed in the market and the development of the government bonds market (Benjamin, 2006).

The development of Equity markets requires a profitable domestic issuer that meets governance and transparency requirements to be listed in the market. However, underdeveloped corporate market financial institutions would have a greater likelihood of being issuers with possible catalytic effects on the private issuer market (W.Bank, 2019).

2.3.2. Legal and Regulatory precondition

2.3.2.1. The legal and regulatory infrastructure

Legal and regulatory infrastructures are the legal systems and institutions that ensure the protection of property rights, the availably and creditably of information, and effective and fair financial transactions and contract enforcement mechanisms. In addition, it is the possibilities and efficiency of the legal system to take corrective action, to control and limit the corporate manager, and protection of creditor rights and insolvency rules that support the debt will recover with minimum loss (Acharya, 2019).

Additionally, La Porta et al., (1999) further elaborate a strong legal and regulatory infrastructure that includes strong protection for private property rights, minority shareholders, a robust judicial system, and strong support and respect for financial contracts, in addition, it also entails standard accounting and auditing report and enforceable disclosure rules that ensure accurate and timely financial data for investor decision-making.

Pagano (2003) also indicates that the establishment of security of markets requires legal structures that assure transparency, contract enforcement and also capable to protect property right is a critical requirement for development of security of markets.

2.3.2.2. Political stability

Political instability inspires people to save their assets in unconventional ways. As can be shown, political uncertainty has a direct and indirect effect on capital markets, both in terms of investor trust and economic growth (Trivun & Imamovic-Cizmic, 2006).

Bekaert (1995) provides evidence that higher levels of political risk are related to higher degrees of market division and consequently, low levels of stock market development.

2.3.2.3. Effective judicial system

The other essential need to develop an effective legal and regulatory infrastructure is the effectiveness of a judicial system that includes honesty, and the capacity to handle sophisticated complex securities cases. And also, it includes the ability can intervene as quickly as when needed to prevent asset stripping, and give decisions without intolerable delay. Additionally, public prosecutors and judges who have been trained and qualified with securities law are very essential to develop an effective regulatory body since they can tackle easily tackle Complex cases of fraud in securities markets. Besides that, their ethics and morality are also essential to develop fairness and transparency in the regulatory body (Black, 2000).

2.3.2.4. Uniform Accounting and auditing report system and standard

Credible financial information is vital for the development of a security market and one of the essential prerequisites for an efficient security market, in which information is derived from financial statements that are widely used in the capital market for the investor to evaluate past, present, and future cash flows of the corporations, despite its value to creditors and competitors. As a result, investors and other interested parties can better predict potential risks and returns. So comprehensiveness, consistency, relevance, reliability, and comparability of financial statements are crucial to the development of the secondary market; on the other hand, the lack of reliable, uniform, and accurate financial information hinders the development of the market(Mutarindwa, 2019).

Enforceable disclosure rules

The backbone of well function of the secondary market is the adequacy, accessibility, and timely disclosure of information both financial and non-financial information for investors and also for regulators to assure transparency and fairness in the market (Brennan & Solomon, 2008).

In order to make critical decisions and sound judgments on the value of marketable securities, investors need to be well informed about the corporation's information both financial and non-financial. Due to that, enforceable disclosure rules are essential to assuring the quality and the availability of information on a time base (Haniffa & Cooke, 2002).

2.3.2.5. Regulatory and supervisory infrastructure

Regulatory and supervisory infrastructure is defined as the overall framework of rules, regulations, procedures, and principles that regulate the issuance and distribution of securities, market participants, and the organization of securities markets including the government. As a result, a regulatory body establishes to create rules, guidelines, regulations, and other requirements to guide the secondary market (Black, 2000).

The establishment of the regulatory body ultimately has three core objectives which are invertor's protection from any illegal practices in the market which like insider trading and other miss uses investor assets, ensure the market to be fair, efficient, and transparent and the last one is the reduction of systematic risk (IOSCO, 2012).

IOSCO (2012) recommends the essentials to develop an effective regulatory body in terms of power, independence, accountability, resource allocation, and professionalism. Primarily the regulatory body should have clear and objectively set out responsibility and accountability toward its responsibility thus preferably in law to address the core objective regulatory. Besides if there is more than one-layer regulatory body the Legislation should be designed to avoid gaps between the bodies and there should be effective cooperation among them through proper way. Secondarily, the regulatory body should have operational independence from the internal and external body which likes political interference or commercial interference. Additionally, there should be a clear and transparent process when there is consultation and approval process with the government, thirdly, the regulatory body should have proper and adequate power including licensing, supervision, inspection, investigation, and enforcement power. Furthermore, the body should have proper resource and capacity in terms of the fund, technology, and manpower to execute its power and responsibility effectively, finally, the regulatory body needs to assure that highest professional standard when stuffing the departments.

Besides that, there are four models to organize the regulatory body depend on how much the self-regulatory body empowers to regulate the security market and the participant; which are

Government (Statutory) Model, Limited Exchange SRO Model, Strong Exchange SRO Model, and Strong Exchange SRO Model (Carson, 2011).

Government model; the private enforcement is very limited to regulate the exchange center and its members while the government is the sole regulatory body in the market.

This model is recommended for a country with a limited capital market and little experience related to SRO. On the other hand, it has been criticized regarding the power delegation, when more power given to the regulator becomes bureaucratic and less responsive as a result; the market necessarily acquires more resources (manpower, budgetary and technology) to address the whole market or it may loss technical capacity otherwise. E.g. European Union countries

Limited stock Exchange SRO Model; public authorities have the most power but SRO act as the front line as regulatory like market surveillance and basic listing standards in a limited area.
E.g. Hong honk

Strong stock Exchange SRO model; SRO is mandated to regulate the market operation, participant, and member of the stock exchange furthermore mandated to develop rules and requirements to executing it's responsibly. E.g. INDIA, Uganda, Rwanda

Independent Member SRO model; in this model, the SRO has intensive power similar to the above model but the SRO is independent of the operational bases of the stock exchange just purely a regulatory body. This structure creates independence, neutrality, and to have clear objectives and responsibility for SRO. E.g., Kenya

2.3.2.6. Market infrastructure precondition

It is a set of procedures, rules, and institutions to create enabling environment for trading and transferring of funds and security instruments between investors efficiently. which including trading system, payment and settlement infrastructure, and depository system.

2.3.3. Trading infrastructure

Trading infrastructure is one of the requisites to develop market infrastructure and it has a crucial role to determine the price of financial instruments efficiently. The development of trading infrastructure involves the arrangement of the physical layout like, information present, and communication system, in addition, it includes the development of rules, procedures, and standards to determine how, when, where, and by whom the trade is executed (Rzepczynski, 2004).

There are two types of approaches to develop the trading system which are organized (centralized exchange) and over the counter. The centralized exchange which regulated and transparent market compare to over the counter because the market has its own rules, standards, and regulating mechanism. In addition, in central exchange, the price is determined by displaying bid and offer for all direct participants then if the two parties agree on the trade executed while voice, hand, or signal as means communication mechanism whereas dealers are price setters in the over-the-counter market (Dodd, 2007).

2.3.4. Clearing and settlement infrastructure

One essential requisite to develop security market infrastructure is the presence of Clearing and settlement infrastructure and central security depository which are vital features for smoothing and securing the process of ownership security instruments transferred from seller to buyer and also a reciprocal transfer of funds in payment and also storage of the financial instrument in the safest way. The clearing and settlement infrastructure providing four min activities which are confirmation and clearing the trading, payment, and delivery in addition a central security depository delivers holding the security instrument as physical or as dematerialized forms (electronic form). In addition, it acts as a central security instrument registrar for individual investors and institutions (The Giovannini, 2005).

The key requirements to develop an efficient and safe clearing and settlement infrastructure are legal base, security instruments, standards, adequacy of technology, and Institutes. the legal base which has enforceable rules and procedures that define, the right and the obligation of the participant; standard, defines the time and requirements between steps and the procedures; the availability of financial instruments that can be transferred or exchanged; the institutions, it delivers transferring and settlement services of financial instrument and fund regulatory body that regulate the whole environment accordingly predefine rules and standards and the last one is the Availability technology infrastructure to minimizing operational cost and risk and also to maximize the efficiency of the system(Guadamillas, 2001).

The other important point that considers in the establishment of clearing and settlement infrastructure is the design of the settlement system. There are two types of approaches to settle the trade which are gross or net base settlement, the gross settlement which is the trade settled individual after trade confirmed in the clear house in real-time gross settlement system. This approach minimizes the risk associated with credit, liquidity & systemic but this approach requires high volume liquidity funds and security. While net base settlement is where the trade is settled as net base after a predetermined time and it can be bilateral or multilateral but this approach creates risk associated with credit and liquidity (de Carvalho, 2005).

From the ownership point of view, there are different ownership models for clearing and settlement ownership structure which are stated ownership, stock exchange ownership, states owned and multi-sector ownership, and the combination of the above (Guadamillas, 2001).

Depending on the above conditions there are four models to develop CSD which are; Model A, which is a single CSD in the country and the majority of share owned by the private sector and favorable when the private sector is capable to promote public interests through sufficient capacity (in terms of financial, human resources) and observance of international standards, Model B; single CSD but majority stake owned by of public sector which is more suited for small markets with a strong public-sector operator. But the ownership structure can change through time because starting those steps temporarily supports the development and stability of the securities market. Whereas safety is assured by dominating role of the public operator, Model C; multiple CSDs, and all operated by the private sector which is suited for strong private and large and liquid markets. Competition between multiple private sectors becomes one means to realizes Efficiency and safety assured by a legal framework and Model D, more than two CSDs where is One CSD is operated by the public sector whereas the other CSD(s) operated by the private sector. The model is suitable for all market sizes, except the smallest markets, and requires strong public and private operators. Efficiencies can be gained through links and competition between private-sector operated CSDs (Wendt et al., 2018)

2.3.5. Brokerage firms

The brokerage firms act as an intermediary in the market by facilitating an individual investor to access the market. hence the brokerage firms buy and sell in the market on behalf of his customer and improve the liquidity of the market by creating easy access with lower transaction costs for individual investors that increase the participation of the investor in the market (Benjamin, 2006).

2.3.5.1. An investment Bank

An investment bank is an institution that delivers advisory related to financial instrument evaluation and transactions for corporations, pension funds, and individuals. furthermore, it acts as an intermediary in the market which including buying and selling of financial instruments on behalf of its customer and is an account (Kumar, 2019).

2.3.5.2. Awareness of the investors

The awareness level of the investors has a significant effect on the development and liquidity of the security market in developing countries. Enhancing the awareness level of the investor in counties' bases can improve the investor base and liquidity of the market (Gizachew, 2019)**.**

According to a survey on the Ghana capital market in 2009 which show that 33% of companies surveyed were hesitant to list on market by fearing losing Ownership Company because of low-level awareness regarding the market. which is a real example comprehensive investor and public awareness being important for the development of the market (Yartey, 2009).

2.4. Empirical Evidence related Essential Requisites for Establishing Institutionalized Secondary

From Pardy, (1992) macroeconomic conditions, regulatory and institutional infrastructure are the building blocks or enabling environment to build an effective and sounding security market. Where the legal environment which provides four basic elements for the security market as general; assurance to property rights and contract, transparency on the trading system and public disclosure information by the company, safety for investor from any illegal practice in the market and the last one protection investor against the financial failure market institution.

R. La Porta et al., (2000) and, (2002) indicate that strong property rights, and adequate protection creditors and investors through company laws and commercial codes, as well as disclosure of rules and proper accounting rules and practices, are key elements of the development of securities markets.

According to Chami et al(2009) identifies political stability, quality of legal institutions (particularly concerning investor protection), law enforcement, disclosure of reliable information, and a diversified investor base are vital for the development of the capital market.

The other study by Solaiman, (2005) also studies the effect of the judicial system related to developing the capital market in developing countries and concludes that the countries that have a weak judicial system and are less developed in the capital market. Further briefing by the researcher, the efficiency of legal institutions is more critical than the written of the law in the books in transition economies.

Andrianaivo & Yartey, (2009) found that macroeconomic stability and private capital flows have been the key drivers of stock market development in emerging markets.

Impavido et al., (2003) and Claessens et al., (2003) argue that the development of strong liquid financial markets depends on the existence of a diversified class of institutional investors. Institutional investors, which like Mutual funds, pension funds, and insurance companies act as a stable source of demand for equity and debt securities additionally, they foster competitiveness and efficiency in the market.

According to R. No et al (2001), state that the legal and regulatory infrastructure and market infrastructure consider as the basic enabling environment for the secondary market next to the stable macroeconomic condition. The regulatory body has an irreplaceable role in the market to develop a stable, fair, efficient, and transparent market besides managing systemic risk in emerging the market whereas the financial market infrastructure plays a critical role in fostering financial stability.

As Zingales, (2019) market Regulation and Oversight, adequate protection of Property Rights, strong Rule of Law, Stable macro-Economic, and Encouraging Fiscal Policy is the key enabling environment for the establishment of financial market beside there should be enough supply of finance and also requiring the finance as demand. Additionally, the financial market should be supported by the financial infrastructure like the payment system for efficient transactions of funds and security.

2.5. Empirical evidence related to the secondary market in Ethiopia

Teklay (2011) indicated that; Ethiopia should consider the establishment of the stock market in which by indicating the increasing the no of shares companies in the country from time to time, and the challenges of shareholders to liquidate their assets with reasonable price and time, and also, the difficulty of companies to raise their capital for new investment and expansion of their existing one.

Kiflework (2018) conducted a study titled "Should Ethiopia Consider Establishing Stock Market?". In this study, he strengthened the Teklay (2011) conclusions by indicating additional points that support his conclusions. Which are; the growth of private sectors, increasing of government activities to transfer of the public organization into the private sector, the presence of large illiquid assets in the market, and the increasing innovators and entrepreneurs' activities.

A Tessema, (2003), Gizachew, (2019), and Recently Hailu, (2020), have conducted studies to address the prospect and challenge of establishing a stock market in Ethiopia. In their findings, they indicated the challenge as; lack of public confidence and institutional capacity, the underdeveloped government of the bond market, absence of input by the business community in the formulation policy, inadequate institution and legal framework, low-level quality and quantity financial services, accounting and auditing gaps, and underdevelopment of technological infrastructure.

They also pointed the opportunities as; the existence of intuition like a country pension fund and insurance companies, incentive programs for investors, the interest of foreigners to invest in the country, the development of financial sectors, and the current initiative of the government to establish the stock market as an opportunity. They also revealed the advantage of establishing a secondary market as it will solve liquidity problems for shareholders, minimize the difficulty of companies to raise capital for new investment and growth of their investment, it will improve the accounting and auditing standard and corporate governance, and also increase investors who will participate in the stock market to generate liquid

Additionally, Ejigu (2017), indicated that infrastructure requirements for establishing a secondary market in Ethiopia among them, Regulatory and strong Legal System Comprehensive and strong Banking System, State-of-art Communication Network and the policy requirement for effective functioning of capital market and efficient operations market.

2.6. Developing Country Experience

2.6.1. Nigeria

The Nigeria stock market is called Nigerian stock market and it is the oldest and the biggest stock market in the African content next to Egyptian Exchange and Johannesburg Stock Exchange. There are 656 listed companies at the stock exchange center and the market capitalizations reached 23 billion USD in 2020 (Aliyu, 2019).

2.6.1.1. Regulatory body Nigerian stock market

The capital market of Nigeria is called the security and exchange agency which is the top regulatory body in the country and responsible for protecting investors, maintaining fair and orderly functioning of securities markets. The agency is a statutory and independent regulatory body and has clear responsibility and power which is derived from the law ISA 2007. The agency has passed the different stages to have the current structure, when it began in 1962, it was an ad-hoc and non-statutory capital issues committee under the central bank to assist and advise the central bank. And also, it was mandated only to examine applications from companies seeking to raise capital. Then, it was upgraded to capital issues Commission in 1973 with limited functions like determining the price, time, and amount of share and advice the central bank related to the regulation of the market. Again, when the country's economy and market size increased, the country took reforms in the financial sectors. As the result, it transformed to Commission in 1979. Now the body is a fully mandated agency to oversee and control the capital market in the country. Though it is supervised by the Federal Ministry of Finance (NAUJILJ, 2013).

The regulatory body approaches two-layer approaches to regulate the market which are self-regulatory and public regulatory body. The Self- regulatory is the first layer regulatory body and it is mandated by the regulatory body to regulate, tracking, and applying requirements for participants of members. But the agency is the top regulatory body in the market (Investments & Act, 2007).

The regulatory authority has established various mechanisms to protect investors. Ensuring disclosure requirements, accounting, and auditing standards, and the registration of fit and proper personnel to operate in the market Ensuring adequate capital requirements for market participants, Ensuring fair and equal treatment of investors by market intermediaries, and Establishing a robust inspection, surveillance, and compliance program(Investments & Act, 2007).

2.6.1.2. Power and function of the regulatory agency

The agency function is mainly categorized into two categories. These are market regulation and market development. In the regulation function, the agency is mandated to registration, inspection, surveillance Investigation, and Enforcement all of the market intermediaries like stock exchange, clearinghouse, broker and others who involved in the capital market whereas in Rulemaking agency mandated to draft rules and regulation related to the capital market but the rules approved by the ministry finance before proceeding to the implement and in enforcement function, the agency is mandated to take enforcement action like delisting, penalties and other. In addition to regulation of the market, the agency is responsible to develop the market by doing different research to develop the market and also prepare different seminars and training to enhance the understanding of the investor and the citizens about the market(Aliyu, 2018).

2.6.1.3. Organizational structure regulatory agency

The agencies managed by the board of director and management team. The board director is the highest body to manage the agency and have nine members. It is composed of representative CBN, representative ministry of Finance, Chairman of the body, director of the body and Chief executive of the body and the members appointed by the president for a three-year term. Additionally, the board members are expected to have related working experience and educational background. Which is, the chairman expected to have a minimum of 15 years related working experience and also vice-chairman required to have a minimum of 12-year working experience and also all of the members required to have related working experience and the educational background besides to be free from any criminal issues (Investments & Act, 2007).

At the early stage of the body, the main source of the fund was the government but now the main source of the fund from the government and the fee related to the regulation (Investments & Act, 2007).

2.6.1.4. The trading infrastructure of the Nigerian stock market

The Nigeria stock exchange is the only stock market in the country and it began in 1962. it the beginning it was called the Legs stock exchange and it was a registered private limited company and now has six branches in the country. At the start, it was incorporated as a non-profit making limited liability company but now demutualized. The trading system at the start was called over or manual system and upgrading electronic system platform with a central order book that allows Dealing Members to participate on equal terms, competing on the hierarchical basis of Price, Cross and Time priority which the main the instruments that traded in the market are Ordinary shares, preference shares, government, and corporate bonds and derivative instrument (Olowe et al., 2016).

2.6.1.5. Clearing and settlements infrastructure of Nigerian stock market

The Central Securities Clearing System (CSCS) is the sole central clearing, settlement, and security depository service delivery institution in the country which was established in 1997. It was registered as a Public Liability Company (plc) and owned by NSE and different banks. The CSCS delivers clearing (matching, confirming and calculation, and netting of the obligations), central securities registry and custody of securities, running the securities balances, and facilitates the transfer of securities and funds which approved Nigerian Exchanges. It operates a computerized depository, clearing and, Settlement system for transactions in the Nigerian stock exchange center. Now Nigeria reached a T+3 security settlement and fully book-entry system(Sanusi, 2013).

2.7. Kenya

The stocks market in Kenya was started in the 1920s when the country was in a British colony. The market was neither a formal market nor rules or regulations to govern the stockbroking activities. But it was formalized in 1954 and called the Nairobi Stock Exchange (NSE) then it started with 46 listed companies, as a voluntary association of stockbrokers. After the economic reform had taken in 1984, the NSE was registered under the Companies Act; and it phased out the "Call-Over" trading system in favor of the floor-based "Open-Outcry System" (Nairobi Stock Exchange, 1996). Now, there are 66 companies which listed in Nairobi Stock Exchange (NSE) and the market capitalization reached around 23 billion USD and the daily trading volume reached around of 10 million USD (www.NSE.com.ke).

2.7.1. Regulatory of the infrastructure in the Kenya stock market

The regulatory body of Kenya is called Capital market authority which is an independent regulatory agency in Kenya.it was established in 1989 approved through an Act Parliament (Cap 485A, Laws of Kenya). The regulatory body is mandated to license, regulate, investigate and enforce the market player and to develop the rule and regulation. But the rule and regulations are approved by ministry finance (Capital Market Authority, 2017).

The agencies leady by the board directors and the management team; the board have seven members where the chairman is assigned by the President of the country with the recommendation of the finance minister and the rest of the members assigned by the finance minister for three years terms and they expected to have related working experience which like Accounting, Economics, Banking, and other related fields (Gakeri, 2012).

2.7.2. Trading Infrastructure of Kenyan stock market

Kenya has one stock exchange market which is called the Nairobi stock exchange which was a voluntary association of stockbrokers for a long time. After the country taking serious economic reform in 1984 NSE was registered as a private company limited in 1991.NSE has gone different steps to improve the service quality among them in 2006 adopted an automated trading system then upgrade the service from Open-Outcry System to remote trading through Wide Area Network (WAN) and improved the settlement cycle from T+4 to T+3.now the fully automated trading system implemented (Capital Market Authority, 2017).

2.7.4. Regulatory structure of Nairobi stock exchange

The NSE has an independent self-regulatory department that is legally recognized by the regulatory body. The self-regulatory physically and functionally separate from NSE and the department reports for the independent committee which is called the self-regulatory committee and the committee lead by non-executive board members. Self-regulatory has the power to supervise and regulate the Market Participants to ensure the market is safe and efficient (www.NSE.com.ke).

2.7.5. Clearing and settlement infrastructures Kenya stock market

Before 2004 the system was manual to delivery and settlement traded security system. The system involved the exchange of share certificates between stockbrokers, NSE, and shares registrars of listed companies before a trading transaction could be completed. The delivery and settlement system were intended to take the T+5 cycles (day of trading plus five days). However, in practice, it took an average of between eight (8) and fourteen (14) days. In 2004, an automated clearing, depository, and settlement (CDSS) system began operations. The first time the idea to develop CDS was in 1994 but it took about ten years to implement the idea to practical because of Lack of adequate legislation for the implementation of a CDS between 1995 and 2000, Inadequacy of funds, and efforts to source financial support for the infrastructure and the collapse of an initial agreement with the provider of the software are the reasons delay but at 2004 the CDSS start to give the service (kibuthu, 2005)

The central depository system provides a centralized system for the transfer and registration of securities in electronic format without the necessity of physical certificates by this the Kenya achieve the T+3 settlement standard (www.CDSC.com.ke).

2.8. Egypt

Egyptian stock market is the biggest and eldest market in Africa content next to South Africa and it was established in 1884. Now the market registered 247 companies and reached 44 billion USD market capitalizations (www.EGX.com).

2.8.1. Regulatory infrastructure

The Financial Regulatory Authority is the public regulatory body which is the main regulatory body to regulate all financial non-banking services in Egypt. The responsibility of the regulatory body can be categorized into four categories which are licensing and registering, supervising sizing, inspecting and regulating enforcement, and last one rulemaking. In licensing and registering function, the authorities licensing institutions, brokers, corporate directors, and any others who involved in the operation of the capital market, in supervising, inspecting, and regulating function; the authorities have full mandate to supervise and regulate the institutions that licensed by the authorities which include supervising their police, their cooperate governance, online monitoring trading transaction and trading data and also physically inspecting; in enforcement function; the authority is mandated to take action who involved illegal practice from administrative action to court and in the rulemaking, the authorities mandated to draft and implement rule and regulation without the approval external body(law, 2009).

2.8.1.1. The organizational structure of the Financial Regulatory Authority

The regulatory body is managed by the board of directors and management team where director boards are the highest body where The BOD has eight members and constituents from Central Bank and different professionals. The board member was elected and approved by the prime ministry country by recommendation of the Minister for four years terms. But the board members are expected to have sufficient experience and knowledge in economic, financial, and legal matters (law, 2009).

2.8.2. The trading infrastructure of the Egyptian stock market

The Egyptian trading infrastructure comprises the centralized stock exchange and over the counter, the centralized stock exchange is called The Egyptian Exchange (EGX). Which is the only state-owned Stock Exchange in Egypt and comprises two exchanges, Cairo Stock Exchange and Alexandria Stock Exchange but both governed by the same board of directors and sharing the same trading, clearing, and settlement systems under one name? Since 1994 both Cairo and Alexandria Exchanges had an electronic trading system and also The Egyptian Exchange (EGX) uses an electronic trading system. Where Orders can be entered by brokers, from either location or the offices of licensed brokers and the best price has the highest queue priority. All brokers have the same trading system and the same information is available for them Information providers where both the ticker and database feeds are similar in their content. The Over the Counter (OTC) is also the other platform to trade stock in Egypt. It was mainly the market for pre-arranged deals that took place off the Exchange between buyers and sellers traded of unlisted securities before 1992 and now after the Capital Market Law, over the counter market get are legal and binding, support but No listed security is allowed to trade on the OTC market (Otaify, 2020).

2.8.3. Clearing and settlement infrastructure Egyptian stock market

There is a single clearing and settlement agency in the country called Clearing, Settlement and Central Depository Company (CCSD) which delivers clearing, guaranteed settlement, custodian for some financial institutions, and central depository for the traded executed on Egypt Exchange (EGX) and owned by brokerage firms, banks, and fund management companies. Currently, the agency delivers T+3 for dematerialized securities that constitute 90% of trading and T+4 for physical securities (www.MCR.COM).

CHAPTER THREE

3. RESEARCH METHODOLOGY

Here, the researcher presented the methodological frameworks and the procedures applied by the researcher to address the research question raised by the researcher to meet the objective of the research. The methodological frameworks include research design, research approach, data collection, and sampling, and sampling design and methods data analysis, interpretation, and presentation.

1.1 Research design

Research design is the framework or outline of the research which indicates how the researcher will conduct it. It involves how the data collect, measure, and interpretations to address the research problem and to answer the research question. Research design is an essential element of the research, it gives a clear guideline for the researcher and other concerning bodies on how the research will go to meet its objective and it helps the researcher to be efficient in terms of time and resources (Kothari, 2004).

The research used descriptive research design and crosses sections by nature at the study time frame. The researcher used the descriptive research design to describe the Essential Requisites for Establishing Institutionalized Secondary Market in Ethiopia by describing the existing condition or situation of legal and regular infrastructure, market infrastructure, accounting, and auditing standard, and macro-economic condition.

1.2 Research approach

The research approach is a plan and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation. There are three research approaches which are Quantitative, Qualitative, and mixed. The Quantitative approach involves the collection of numerical data and interprets using different statically technic whereas the qualitative approach collects non-numerical data and analyze the data and the mixed approach involve both Quantitative and Qualitative approach (Kothari, 2004).

The mixed-method is used when the research question cannot adequately be addressed by either qualitative or quantitative approaches or the method focus on collecting, analyzing, and interpreting both qualitative and quantitative in a single research study. This approach allows for the researcher to combine both qualitative and quantitative data to address the research question approach (Kothari, 2004).

The researcher used a mixed research approach for a better understanding of the respondent's views regarding the research questions, and to reach conclusive conclusions. Because of this, the researcher used a mixed approach.

3.3. Population of the study and sampling techniques

The population of the study was a government office that has a big stake in the development of the secondary market in Ethiopia like NBE and AABE, the expected participants when the market launches, these are share companies mainly banks, insurance, and pension funds. Additionally, related institutions, ECX, and the chamber of commerce were also the population of the research. Base on that the quantitative data, 81from share companies, 32 from the bank,34 from insurance, 6 from government employee security agency and private employee security agency, 8 from ECX, and 6 from Addis Ababa and Ethiopia's chamber of commerce as a total of 167 samples used for this study.

The researcher used both non-probability and probabilities sample techniques. Thus, the researcher used purposive sampling techniques in order to select the main stakeholders to establish a secondary market in Ethiopia. In addition, simple random techniques are applied for probability techniques to select the sample from the target population.

3.4. Data Type and source of data

The data can be collected from primary and secondary sources where the primary data collected from a direct source using personal interview, group discussion, or using questioner whereas Secondary data refers to information gathered from existing sources and collected before by another researcher and stored for public use including reports, journals, research papers, and other relevant data relating to the subject at hand. For example, in this research, secondary data is obtained by examining records such as government publications, websites, and seminar write-up (Kothari, 2004).

The researcher used both primary and secondary data to get the desired result and to achieve the best result from the data. The primary data were collected from share companies, banks, insurance, pension institutions, ESX, AACCSA, ETCCSA, NBE, AABE, and ministry of trade using closed-ended Questioner and direct personal interview using discussion checklist as an instrument for data collection. The questioners were developed both in the Amharic and English versions for a better understanding of the respondents. In addition, the secondary data was collected from different international data like IMF, World Bank, world stock exchange center, IOSCO, countries report, and different journals.

3.5 Sample design and sampling

A sample design is a road map to obtain a sample from a given target group which refers to the technique, the methods, and the procedure that the researcher applied to screen or selecting the sample from the population. additionally, Sample design includes determining the size of the sample from the target group (Kothari, 2004).

The researcher applied probability sampling techniques to draw the sample from the target population and simple random techniques were applied. According to the ministry of trade 2019/2020 data, there are 1655 share companies in Ethiopia and 1465 share companies that exist in Addis Ababa. Then, the researcher has screened or excluded some share companies based on the nature of business-like parking, and based on the establishment of the year. Based on that, the share companies aged more than two years as a total 1121 share companies were selected from the target population that exists in Addis Ababa Because of the time and beget constrain

The sample size is determined by (Yamane, 1967)

Formula $n = N/(1+N(e^2)$

Where N= Target population

n= sample size

e= error of percentage (10%)

$$n = \frac{1121}{(1+1112*0.1*0.1)}$$

$$= 91$$

According to the NBE data 2019, there are 16 private banks and 18 insurance companies in Ethiopia, and the researcher selects, the bank and insurance those have two years of age and 16 private banks and 17 insurance companies selected as the sample(www.Nbe.com.org.et).

In addition, the researcher used purposive sampling techniques to select the main stakeholders in the development of the secondary market in Ethiopia. Because of this, NBE (committee members related to the capital market, legal and clearance and settlement department), accounting and auditor board of Ethiopia, ministry of trade, Ethiopia and Addis Ababa chamber of commerce, private employee social security fund and government employee social security fund were selected.

3.6. Method of Data Analysis

The descriptive analysis method was used in the study to analyze data and to arrive at certain conclusions and recommendations. The data analyzed and interpreted using descriptive statistics using mixed analysis method which consist both qualitative and quantitative method. While mean, standard deviation, and frequency of distribution are used for the analysis of the quantitative aspect. And also, the Qualitative data were analyzed through narrative explanation.

3.6.1. Reliability Analysis

Cronbach's alpha was used to determine the reliability of internal consistency. The following is a frequently accepted rule of thumb for characterizing internal consistency using Cronbach's alpha. If the value of (Cronbach's alpha) is between 0.5 and 0.6, the reliability is considered acceptable. It is rejected if it is less than 0.5. And if the value is 0.7 or higher, the reliability is adequate and extremely satisfied, according to Cortina, J.M. (1993).

The pilot sample was used to test the reliability Questionnaire, and the Cronbach alpha result is 0.775 which implies that acceptable

Pilot tasted applied to approving the reliability before preceding the main study to approve the reliability and to reach the desired conclusion. Hence, a pilot study was conducted on branch office banks, insurance, and ministry finance, as 20% of the total respondents used to conduct the pilot study. This was done to determine whether the questionnaires needed any adjustments to fit the requirements of the study**.**

Table 1. **Reliability data**

Cronbach's Alpha	N of Items
.775	35

3.6.2. Ethical Consideration

All data collated by the researcher based on the willingness of the respondent, confidential and used only for academic purposes. In addition, the researcher did not mention the respondent's name when the data was collected besides the researcher was neutral and respect or did not undermine the respondent's social religious, and political attitude.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

Here, the researcher presents how data were analyzed and interpreted. The data were analyzed and interpreted using descriptive statistics using the mixed analysis method. Which consists of both qualitative and quantitative methods. Also mean, standard deviation, and frequency of distribution are used for the analysis of the quantitative aspect. The average mean value is used as an indicator of the average perception of the respondent regarding each Question; the standard deviation is also applied to show how the respondents view diversity on each of Question where low standard deviation implies close opinion and high standard deviation implies the respondents vary for each Question, and the also one, frequency of distribution is used show that distribution of the variables.

In addition, the mean value and standard deviation were computed based on the rule of thumb, and the intervals for breaking the range in measuring variables collected with a five-point scale And it ranges from strongly disagree to strongly agree are 0.8. Which is derived by dividing the difference between the maximum and lowest scores by the (Thumb, 2012).

As a result, a calculated composite mean value of 1 to 1.80 indicates significant disagreement, where the remaining ranges of 1.81 to 2.6, 2.61 to 3.40, 3.41 to 4.2, and 4.21 to 5.00, respectively; indicate respondents' judgments of disagreement, neutrality, agreement, and high agreement.

Table 2: Result of surveys

Classification of sample	Sample size	Response received	Response rate
Share companies	91	85	81
Banks	32	32	32
Insurance	34	34	34
Addis Ababa and Ethiopia Chamber of commerce	6	6	6
Pension institutes	6	6	6
ESX	8	8	8
TOTAL	177	171	167

4.1. General information of the respondent

Table 3 Respondent's background regarding their gender

		Frequency	Percent
Valid	FEMALE	49	29.34
	MALE	118	70.66
	Total	167	100.0

Of the total of 167 respondents, 29.34% were female, and the remaining 70.66% were male.

Respondent background regarding their educational background

Table 4 Respondent Educational background

		Frequency	Percent	Valid Percent
Valid	DEGREE	103	60.4	60.4
	MASTER	64	39.6	39.6
	Total	167	100.0	100.0

From the total of 167, respondent 60.4% were degree holders and the remaining 39.6% were master degree holders

Table 5 Respondent background regarding their ages

		Frequency	Percent
Valid	BELOW 25	1	0.59
	25-29	35	20.95
	30-34	37	22.15
	35-39	59	35.32
	40-44	32	19.2
	45-50	3	1.79
	Total	167	100.0

From the total respondents of 167 the age below 25 was 0.59%, the age between 25 and 29 was 20.95%, the age between 30 up to 34 was 22.15%, the age between 35 up to 39 is 35.32%, the age between 40 up to 44 is 19.2% a and the age between 45 up to 50 is 1.79%.

4.2. Analysis of essential requisite for establishing institutionalized secondary market in Ethiopia?

To analyze the essential requisite for establishing institutionalized secondary market in Ethiopia the researcher assessed the respondents' view using structured questioners, a discussion checklist, and relevant literature related to developing country experience.

Table 6: Respondent's views on essential requisite for establishing institutionalized secondary market in Ethiopia

NO	Essential requisite for establishing institutionalized secondary market in Ethiopia	N	Mean	Std. Deviation
1	Establishing regulatory and supervisory body to regulate the secondary market	167	3.8929	.76633
2	Placing standard corporate governance to protect investors	167	3.8857	.89672
3	Capacitate of judiciary system to dispute the stock market case	167	3.7143	.85572
4	Improving of Political stability	167	3.6905	.92181
5	Increasing of investor awareness about secondary market	167	3.9940	.77766
6	Establishing well-organized trading infrastructure for trading of financial instrument	167	3.8333	.83103
7	Development of market infrastructure related to the trading of financial instrument	167	3.7976	.90613
8	Preparing Trained and skilled manpower	167	3.7321	.82964
9	Establishing of brokering firms	167	3.6905	.87516
10	Continuity of Government commitment	167	3.8571	.92397
11	Launching of investment bank	167	3.6429	1.06824

Source of Questionnaire: 2018

4.2.1. Establishing regulatory and supervisory body

As Zingales (2019), the Regulatory and supervisory Body is the key institutional requisite to protect an investor from any illegal practice in the market, so as to assure that market is fair and efficient and to minimize and manage systematic risk.

According to the respondents, the regulatory and supervisory Body is one of the essentials, and it is a baseline for establishing the secondary market in Ethiopia. For time being, there is no functional Regulatory body related to the secondary market in the country in any form, but the Ethiopian government is on the way to approve a draft proclamation to establish RSB. Hence, the government assigned NBE to draft the proclamation, and different teams have been formed at the National bank with different stakeholders who have back a ground related to the capital market which like lawyers, accountants, insurance CEO, academicians, economists, and other stakeholders. Additionally, the committee has collected the feedback by sending the draft proclamation to different stakeholders like AAU, AACCS, and others to improve the quality of the proclamation. Thus, the proclamation approved by the ministry council was passed and endorsed to parliament for approval.

The mean 3.8929 result shows the respondent agrees that establishing a Regulatory and supervisory body is one of the essential requisites to institutionalize the secondary market in Ethiopia.

4.2.2. Placing standard corporate governance to protect investors

As Bruno & Drexler (2016) solid and stable legal and regulatory framework is an essential feature for investors to enter the market with confidence. A solid and stable legal and regulatory should lay out robust and standards corporate governance as a safeguard for the rights of both investors and issuers. These frameworks provide clear legal guidance on how business is conducted, what happens in cases of bankruptcy, assure uniform accounting and auditing systems and standards, and enforcement of private contracts.

La Porta et al (2002) states that countries differ one and another in the development of a strong stock market depending on the quality of investor protection. The countries that have strong investor protection are more like develop the strong and liquid stock market.

According to the respondents, the Ethiopian company law does not have adequate legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence, and remuneration of the board of directors in share companies. But it will upgrade when the new commercial code is implemented in which the new code introduces and upgrades some basic features, among firstly; it introduces a two-tier BOD and gives a chance for the corporation to establish a supervisory board to regulate and oversee the BOD and the management, even up the extent to calling to general assembly when the board of directors not willing. This will improve transparency and accountability, and also protection of the shareholder from abusing their assets, secondly, introducing non-shareholder become a member of BOD and this allows for the company to improve the expertise capacity of BOD and to sit independent BOD, thirdly; it enforces corporation to disclose both financial and non-financial information for their shareholders using the electronic medium on timely bases, fourthly, it introduces the minority shareholders right which is not known before, Fifthly, upgrading the bankruptcy and insolvency law, sixthly; introducing merger and division, seventhly; enforces the share companies to use standard and uniform accounting and auditing report system and the last one, it upgrades the property right for shareholders by recognizing shareholding and transferring as electronic form. And also introduces standard and uniform share registration in the country.

The Mean 3.7857 value strengthens the above fact and indicates that the respondents agree within the placing of standard corporate governance to protect shareholders and creditor is also one of the essential requests for establishing institutionalize secondary market in Ethiopia.

4.2.3 Capacitate judiciary system to dispute the secondary market case

The other essential need to develop an effective legal and regulatory infrastructure is the effectiveness of a judicial system that includes honesty, and the capacity to handle sophisticated complex securities cases. And also, it includes the ability can intervene as quickly as when needed to prevent asset stripping, and give decisions without intolerable delay. Additionally, public prosecutors and judges who have been trained and qualified with securities law are very essential to develop an effective regulatory body since they can tackle easily tackle Complex cases of fraud in securities markets. Besides that, their ethics and morality are also essential to develop fairness and transparency in the regulatory body(Black, 2000).

According to the respondents; capacitate judicial systems like trained and certified prospectors and judges, related to the secondary market are essential requests to develop the secondary market in the country. Currently, the national bank has started to train and certify judges and prosecutors related to the secondary market but there is no formal training programs related to the secondary market to capacitate the judicial system to dispute secondary market cases.

The mean 3.7857 value strengthens the above facts; show capacitating the judiciary system is also an essential requisite for establishing an institutionalized secondary market in Ethiopia

As Solaiman (2005), developing countries that have weak judicial systems were less developed in the capital market while countries that have strong judiciary systems were developed strong capital markets at an early stage of the development of the capital market even after that. In addition, he suggested that the quality of the judicial system is more important than legal texts themselves in emerging economies to protect the investors and to build investor trust in the market.

4.2.4 Improving Political Stability

According to Erb et al (2005) the presence of peace and internal security of a country, and political stability have a direct effect on the development of the stock market, the quality of institutions, and the attractiveness of the market both locally and internationally.

The other recent study is conducted by the world bank Group (2020), this is to examine how the countries environment is favorable to do business easily using different parameters. And Ethiopia ranks 159 from 190 worldwide countries even below Kenya and Rwanda. The result indicates that it is not simple and easy to doing business in Ethiopia.

The respondents indicate that improving stability political environments related to rule of law, and handling corruption are basic requests to establish an institutionalized secondary market in Ethiopia. As a respondent, this is all affecting the business environment to be attractive and profitable, and also investors' confidence to invest in the market.

The mean value of 3.6905 implies that the respondents agreed upgrading stability political environment is the essential requisite for establishing a secondary market in Ethiopia

Yartey (2010) conducted a study on developing countries using panel data from the period of 1990-2004. And the study was in 42 developing countries to examine the determent of the stock market and he found that political uncertainty is one of determent of stock market development in developing countries. in addition, the countries who had low-level political stability and they had low-level quality institutions, low-level democratic accountability, high-level corruption, and low-level role of law and low-level stock market development and less investor confidence to participate in the market.

4.2.5 Increasing investor awareness about the secondary market

Insufficient investor awareness about the secondary market can significantly hamper the development of a country's secondary market. Before deciding whether to issue financial products, potential issuers must understand the issuance process and the options available to them (e.g., types of products, corporate governance set-ups). Similarly, potential investors must understand how financial markets function and the risk-return profiles attributed to different financial products. Without this basis, investors are more likely to suffer unanticipated losses and lose confidence in financial markets (Bruno & Drexler, 2016).

From respondents, currently, the investor awareness related to the secondary market is low. In addition, investors are not familiar with the market rules and principles and the instrument that is traded in the market. NBE and the private sectors have started to give awareness programs for their stakeholders and investors by arranging different seminars and workshops to enhance the awareness of the investor, but it is limited and not as expected .in addition, no institution take takes responsibility formally and start awareness creation programs for of the investor related to the secondary market. From respondents, the awareness level of the investor directly affects their willingness to participate in the market and also their level of trust in the market.

The Mean 3.9940 value strengthens the above fact and implies that the respondents agree on educating and enhancing awareness of the investors, about the basic rule, principles and the cost and benefit of participating in the secondary market are essential requests for establishing a secondary market in Ethiopia.

From different developing countries experience: Poland, Jamaica, Brazil, Argentina, Barbados, Chile, Mauritius, Singapore, Peru, and Paraguay had passed through different awareness creation campaigns in order to resolve the problem related to insufficiency investors awareness, for example, fears of corporations to enlist in the market by supposing loss of control and individuals to participate in the market by supposing loss their asset. The awareness was given on different target groups like as institutions and individuals; it educates the benefit of enlisting in the market, the basic rules and principles, and the risk, and benefit of the secondary market using television and radios, and monthly printing relies on. In addition to on seminars and training programs were also used. The countries in long run increased the liquidity of the market because of the increase of market participants. (IOSCO, 2005).

4.2.6 Establishing the well-organized trading infrastructure for trading of financial instrument

According to World stock Exchange (2017) licensed and regulated Trading infrastructure is the basic requisites to develop the stock market. The trading infrastructure creates a platform for a company to enlist at the trading center based on predetermined listing requirements and it creates an avenue for the investors to execute the trading using clear and predefined trading rules and procedures to discover the fair price efficiently and safest way for their financial instruments

According to the respondents, currently, there is no well-organized and regulated trading infrastructure to trade floated financial instruments in the country. Because of this, the share trading by informal brokerage and individuals at a different place like the cafés, restaurants, on- streets, and different informal places without any regulation. The respondents stressed that establishing regulated and standard trading infrastructure is the essential infrastructure for establishing institutionalized secondary market in Ethiopia.

The mean 3.8333 value approves that the above facts that establishing trading infrastructure is an essential requisite for establishing the secondary market in Ethiopia.

4.2.7. Market infrastructure that facilitates the transfer of fund and financial instruments

The basic requisites to develop security market infrastructure is the presence of Clearing and settlement infrastructure and Central security depositor. Where Clearing and settlement infrastructure are crucial features to smooth the function of the secondary market by realizing, and securing the transfer ownership security instruments from the seller to buyer as well as a reciprocal transfer of funds efficiently and safest way. Furthermore, the Central security depository provides holding the security as physical or as dematerialized form (electronic form) and increases efficiency related to transfer and registration of securities. Thus, Efficiency clearance and settlement infrastructure are directly related to the overall capacity country payment system (Guadamillas, 2001).

According to the respondents, Ethiopia's payment system has shown progress. Ethiopia has now introduced electronic payments, a core banking system, net base, and real-time gross settlement system (RTGS). And it can consider as favorable conditions to develop clearing and settlement infrastructure related to the development of the secondary market. But there is no security settlement system and infrastructure because of the absence of the central security depositor.in any form. In addition, there is no legal base, operational requirement, business rules and operational procedures, fairness and transparency requirements, and standards related to the development of market infrastructure in the country.

The mean 3.7976 value implies that the development of Market infrastructures that facilitates the transfer of funds and financial instruments are essential requisites for establishing the institutionalized secondary market in Ethiopia.

4.2.8 Preparing Trained and skilled manpower

The efficiency of the security market can be affected by the skill of brokers, dealers, and others who are involved in the operation of the market. And developing skilled, competent, and honest manpower related to the market is an essential tool to build sufficient human capital (Mulunesh, 2019).

Respondents stressed that preparing skilled manpower is one essential task to develop an effective secondary in Ethiopia especially for those employed in the services delivery institutions. And NBE has started to fill the gap between the demand and availability of trained and skilled manpower in collaboration with international institutions.

Table 7, the first phase trained manpower

Institution’	Bank	Insurance	NBE	Pension fund	Attorney General	Universities	Other stakeholders	sum
No trained man power	25	20	20	6	2	8	4	85

Source; From NBE

The mean 3.7321value implies that the respondents agreed on preparing Trained and skilled manpower is an essential requisite for establishing a secondary market in Ethiopia.

4.2.9 Brokerage firms

The role of brokerage firms in the capital market is to act as intermediaries, allowing individual investors access to the capital market. Well-functioning brokerage firms can improve liquidity by bringing a larger number of investors to the market; improve diversity by providing differentiated services; and lower transaction costs by having efficient operations and competition between intermediaries, driving down commissions and other costs (Benjamin, 2006).

The mean 3.6905 value implies that the respondents agree on intermediaries’ firms like brokerage firms are essential requisites for establishing institutionalized secondary market in Ethiopia to simplifying the individual investor or retailer to access the market.

4.2.10 Continuity of Government commitment

The governments play a key role to establish robust and competitive secondary markets in the country. This includes the establishment and implementation of a clear legislative structure to protect the interests of creditors and shareholders, by furnished the supervisory and monitoring body with sufficient authority, to ensure the presence of adequate requirements for transparency and the quality of information, by promoting institutional investors to participate in the mark by developing encouraging policies. In addition, the government plays a critical role in providing the infrastructure required to enable the flow of information and the price discovery process by building a variety of infrastructure related to modern payment systems as well as physical layout (El-Wassal, 2013).

According to the respondents, the commitment of the government has taken a positive increment since 2018, and now the government has shown its commitment and interest to establish the secondary market. Even more, it is willing to develop the infrastructures with the private sectors and foreign investors. And, the respondents argue that government commitment should continue and be supported by other economic policies like improving institutional investor policy, introducing incentive programs for investors who participated in the market like tax incentives, upgrading the stability of the political environment, and stabilizing the macro-economic condition.

The mean value of 3.8571 implies that the Continuity government commitment is essential requisites for establishing a secondary market in Ethiopia.

4.2.11. The absence of Investment banks

In the secondary market, investment banks have a role in property trading, which involves buying and selling bonds and stocks on their account, as well as acting as a brokerage, selling, and purchasing on behalf of their clients. Investment banks also advise investors on the purchase, management, and trading of a variety of securities (stocks, bonds) as well as other assets such as mutual funds, real estate, and hedge funds (Kumar, 2019).

The mean value indicates that the investment bank is also 3.6429 which is essential requisite for establishing an institutionalized secondary market in Ethiopia.

4.2.12. Presence of uniform Accounting and audit reporting system and standard

According to Williams & Hussein (2018) Improving the accounting and auditing system and standard, and availability of reliable and high-quality accounting reports system on a timely basis is vital for the development of capital markets especially in emerging markets. Since effective investment decisions are based on the availability and reliable financial information about the corporate that are enlisted in the market.

As a respondent, Ethiopia has accepted to adopt international financial reporting standard (IFRS) and established the Accounting and auditing board of Ethiopia under CMR 3321/2015 and proclamation 847/2014 to improve uniformity and reliability of the accounting and audit reporting system and standard in the country. By this, the institution was planned to implement an international financial reporting standard (IFRS) in five years within three phases. In the first phase, it was focused on highly significant public interest business institutions which area banks, insurance, and public enterprise, the second phase was focused on small and medium business enterprises, and the third phase was focused on micro and small enterprises. But it couldn't achieve and now it is revised to finalize the process of implementing international financial reporting standard (IFRS) in the next three years as a country. According to the institution report, all banks and insurance companies have applied standard and uniform accounting and auditing reporting systems . But, the institution has not yet started financial review based on their reports due to the limitation of capacity. In general, the practices to use uniform accounting and auditing reporting systems and standards have shown improvement. But still, as the accounting and audit reporting system and the standard is low level.

Table 8 statistics, number of institutions that apply full IFRS

No	Type of entities	No of the entities that expected full IFRS	No of the entities that implemented full IFRS
1	Bank, insurance and other financial institutions	36	36
2	ECX members	130	41
3	Unions	68	1
4	Government development institutions, share company and other PIES	1297	613

Source of data, AABE APPRIL 23, 2021

4.2.13. Stable macroeconomic conditions

One of the most vital conditions for the establishment of a stock market is the stability of the macroeconomic environment. Thus, the stock market's development is influenced by macroeconomic stability which is related to income, GDP, and inflation rate. These affects the profitability of the investors. As a result, Stock markets in countries with a stable macroeconomic environment should experience better growth (Zedadra et al, 2019).

Where the respondent, Ethiopia has shown economic growth from different parameters like the GDP of the country and foreign direct investment, also growing and another economic measurement has shown going but the inflation rate and the deficit trade balance is one of the challenges to stabilizing the macroeconomic conditions in the country this have an effect the investor to invested in the long-term investment.

Table 9: statistics, the country's GDP in number from 2017 up to 2019

Country	GDP in USD billion			
	2016	2017	2018	2019
Kenya	69.19	78.97	87.97	95.5
Ethiopia	74.3	81.77	84.27	97.27
Tanzania	49.77	53.32	58	63.18
Uganda	29.08	30.76	32.92	35.17

Source: World Bank statics data center

4.3. Essential needs to develop the legal and regulatory infrastructure

To analyze the essential needs to develop the legal and regulatory infrastructure, the respondent's view is assessed using structured questioners and a discussion checklist. Additionally, relevant literature related to the developing countries experience was used.

Table 10: Respondents view on the Essential needs to develop the legal and regulatory infrastructure

NO	Essential needs to develop the legal and regulatory infrastructure	N	Mean	Std. Deviation
1	Independency of the regulatory body	167	3.994	.8226
2	Adequate law that protects minority share holder	167	3.8333	.90021
3	enforceable disclosure rule	167	4.0238	.81124
4	Recognizing and Empowering self-regulatory body	167	3.7321	.93163
5	Establishing a special court that dispute the stock market case	167	3.8690	.91925
6	Credible and effective enforcement mechanism	167	3.9405	.92534

4.3.1. Independency of the regulatory body.

As Acharya (2019) independence of the regulatory body in terms of power and resource is an essential need to develop an effective regulatory body. The body should assure operational independence from the internal and external body which is political and commercial interference as means of consulting and funding. Furthermore, applying the highest professional standard when staffing the department of the regulatory body is also an essential need to develop an effective regulatory body.

As the respondent indicates, one of the basic needs to developing an effective regulatory body is the independence of the body in terms of power and resource. Additionally, they stress that the body should be free from any political pressure as other regulatory body to execute its responsibility efficiently with accountability. In addition, it helps to build investor trust in the regulatory body. The respondents indicate that assigning and electing a board of directors and management should be transparent and should follow clear selection requirements like professional and expertise base that can assure the independence of the regulatory.

The mean value 3.994 strength the above facts the independency regulatory body in terms of power and resource are essential need to develop effective legal and regulatory infrastructure in Ethiopia.

From the developing country experience studied by IMF in 74 developing countries using panel data from the period of 2002 up to 2006, it is found that 50 % of the countries had independence problems which were like political interference in daily base activities by, and creating so much funds dependency on the government. In addition, Weak Corporate governance, and lack of clarity to assign BOD and CEO, and communication with the government body are founded a one means for independence problems. Hence, the countries that founded independence problems and experienced less development of the stock market compared to other countries involved in the studies (Elliott & Carvajal, 2007).

From Nigerian experience, the criterion to select the BOD is clear and stated by law and each of the BODS is expected to have related experience and educational background. For example, the chairman of BOD is required to have a minimum of 15 years of related working experience, a vice-chairman with a minimum of 12-year working experience, and also all of the members are required to have related working experience and educational background (Investments & Act, 2007).

4.3.2. Adequate law that protects minority shareholders

Despite significant efforts to improve corporate governance standards of both listed companies and potential issuers, some challenges remain which may be limiting willingness to invest in the market. In particular, strengthened protection of minority shareholder rights is needed for issuers to attract interest from a broad set of local and foreign investors especially under high ownership structure, an overlap of ownership control and management, and high conflict interests between majority and minority shareholders (Bruno & Drexler, 2016).

According to the Respondents, some initiative has been taking to strengthen the protection of minority shareholders. Among them, the new commercial code recognized and addressed minority shareholder's right to redeem their share to the majority right. In addition; it gives the right to claim in the court if they are not agreed with the selling price with the majority shareholder. Additionally, before the new code was revised bank, the corporative of a directive in 2019 addressed minority shareholder right in the bank sectors. The directive gave a chance for minority shareholders to represent by one-third in the composition of the board of directors. This help for them to raise their idea and to protect their advantage in corporate decision mater. But still, additional commitment is required to strengthen the protection of minority shareholders from suffering losses as a result of coercive decisions made by majority shareholders or business directors.

The mean value of 3.8333 strengthens the above facts and an adequate legal base to protect a minority shareholder from the benefit of majority shareholders at the expense of the minority, it is essentially needed to develop effective legal and regulatory infrastructure.

According to IBurunciuc & Gonenc (2020) study in 65 developing countries using data from 2005 to 2018, they found that quality minority rights have positive and significance on stock market performance, investor confidence, and the attractiveness of the market.

4.3.3. Enforceable disclosure rule

The rule that enforces the corporation to disclose all information both financial and non-financial on a timely basis and using standard reporting format is a baseline for the development of the secondary market. And also, it is an essential request to develop fairness and transparency in the market (Abdelkarim et al., 2009)**.**

The mean 4.0238 value indicates that rule that enforces the companies that enlisted in the stock exchange center to disclose both financial and non-financial information on a timely basis is essentially needed to develop effective legal and regulatory infrastructure.

According to OECD (2014), the presence of enforceable disclosure rule is one of mechanism to protect shareholders and creditors, and also to develop transparency and fairness in the market especially in a family-owned businesses environment. The experience some of the Asian countries like India, China, Hong hung, Malaysia, and Thailand show that the regulatory body forces the listed companies to disclose all information continues base among them, the listed company should disclose immediately when the transaction of company 0.25% from the total asset and 5% of ownership change in the company in addition to their annual, quarterly and monthly their financial reports (OECD, 2014).

4.3.4. Recognizing and empowering self-regulatory

According to Carson (2011), self-regulatory is a critical component of a to develop effective legal infrastructure in emerging markets by minimizes the burden of government to regulate the market and the time to resolve compliance in the market. In addition, it allows for enterprises to access internal oversight and compliance tasks, including risk management systems, internal surveillance, and internal controls and governance.

The mean 3.7321value indicates that the respondent agreed on recognizing and empowering self-regulatory is also an essential need to develop effective legal and regulatory infrastructure.

From Kenya's experience, self-regulatory is mandated to act as the first regulatory body and it is empowered to supervise and regulate the Market Participants at the Nairobi stock exchange to ensure the market is safe and efficient (Capital Market Authority, 2017).

4.3.5. Special court

The special court that deals specifically with the securities market and financial cases is a vital requisite for the timeliness, consistency, and reliability of decisions. It allows using of specialized knowledge in the process of decisions making and securities regulation. This helps to improve the quality decision-making of judicial and administrative by minimizing the most common problem identified by public procures and a judge is the lack of expertise in financial matters. and the time taking to make a decision, due, in great part, to the volume of cases that they handle (Black, 2000).

The Mean 3.8690 value indicates that establishing a special court is an essential need to develop effective legal and regulatory infrastructure.

4.3.6. Credible and effective enforcement mechanism

The regulatory framework's goals must be met not just through sound regulation, but also through effective enforcement. No matter how sound the rules for controlling market participants' behavior are if the enforcement system is inadequate and Credible – or perceived to be ineffective - the system's ability to accomplish the desired outcome is risked (Trivun & Imamovic-Cizmic, 2006).

The Mean 3.9405 value indicates that establishing a credible and effective enforcement mechanism is an essential need to develop effective legal infrastructure.

4.3.7. Reputational intermediaries' firms

The other essential needed related to the development of effective legal and regulatory is reputational intermediary's firms. These are mainly auditors and investment banks in respect to their professionalism and skill to find wrong disclose information, and their Honesty and independence in certifying a company's financial statements. In addition, their fairness and discipline to treat their customer (Williams & Hussein, 2018).

According to the AABE, the availably of the standard audit firm is low comparing to the country's economy demand even compare to other developing countries. AABE was established, an accountant and audit firm started to regulate, based on the code of conduct. However, it is low level to review their audit report and evaluate the audit firms because of institutional insufficiency manpower and other limitation.

4.4. Analysis of the presence of promising demand to establish institutionalized secondary market in Ethiopia

Regarding the analysis of the presence of promising demand to establish institutionalized secondary market in Ethiopia, the researcher assessed the respondent's view using structured questioners and a discussion checklist. In addition, relevant literatures related to developing countries experience were used.

Table 11: Respondents View on the Demand of secondary market in Ethiopia

NO	Respondents View on the Demand of secondary market in Ethiopia	N	Mean	Std. Deviation
1	Institutional investors put their investment funds or surplus money in a time deposit or buying a treasury bill with less interest rate imply that your Institution demanding alternative investment which like secondary market	40	4.0682	.69542
2	Institutional investors involving in a limited form of investments choice implies that Institutional investors demanding alternative investment which likes the secondary market	40	3.7500	1.03710
3	Institutional investors putting their investment funds in a time deposit and government bonds with lower interest rate compared to inflation rate because of the absence of alternative investment choices of which like equity market	40	4.0909	.52020
4	the legal system is supportive to participate for Institutional investors in alternative investments like secondary markets in full capacity	40	3.6591	.98697

Source of Questionnaire: 2018

4.4.1. Demanding secondary market to maximize investments return

The study assessed the demand implication of the secondary market on the need of Institution investors to invest their investment funds to get a better return. Accordingly, the researcher invited the respondents to give their view on Institutional investors put their investment funds or surplus money in a time deposit or buying a treasury bill with less interest rate imply that your Institution demanding alternative investment which like secondary market, and the respondents agree on the idea with the mean value of 4.0682, which implies that Institutional investors are demanding alternative investment choice which is like a secondary market to maximize their investments return.

The institutional investors may have two intentions from time deposit and buying a treasury bill, which is protection and returns, while well-functioning of a secondary market can satisfy both intentions with a better return.

4.4.2. Demanding secondary market to maximize alternative investments choice

The other point applied to assess the presence of promising demand-side is asking the respondents to give their view on institutional investors participated in limited investments choice because of lack of alternative investments choice like secondary market, and accordingly, the Mean 3.7500 value indicate, the respondents agreed on institutional investors participated in a limited and common business environment, because of, lack of alternative business environments like the secondary market. Besides as an alternative investment choice, the secondary market enhances the practice of holding passive assets to liquid and productive assets. Because of this, institutional investors are demanding an alternative investment investments choice like a secondary market to diversify their portfolio and diversify their risk, and to hold active and long-term investments assets.

As Gizachew (2019), individual investors in Ethiopia have the practice to put their assets in traditional form assets like land, vehicle, gold, and silver even in highly inflated value because of limited alternative investments choice like the stock market in the country. Because of this, individual investors are demanding an alternative investment investments choice to diversify their portfolio and to hold active and long-term investment assets.

4.4.3. Demanding secondary market to cop up with Inflation challenge

Additionally, the study assesses implications demanding secondary market to cup up the inflation challenges, by asking the respondents views on institutional investors put their investment funds in a time deposit and government bonds with lower interest rate compared to the inflation rate due to the absence of investment choice of which like equity market. And, the Mean 4.0909 value of respondents, indicate that they have agreed, the institutional investor demanding alternative investment choices to cup up the inflation which is like a secondary market.

According to Ethiopia statistics agency (2020), the current and the previous inflation rate of the country is much higher than the interest rate saving and government bond respectively 7% and the 5.5% even compared to other East Africa countries.

Table 12 statistics of countries inflation rate from 2017 up to 2020

Country	In 2017	2018	2019	2020
Ethiopia	10.69%	13.83%	15.81%	20.35%
Kenya	7.99%	4.69%	5.2%	5.29%
Rwanda	4.84%	1.36%	2.43%	8%

Source: www.statista.com

From the data, the inflation rate is substantially higher than the rate of return on savings accounts but the market doesn’t provide diversified alternative investment choices for investors rather than time deposit and government to earn higher returns than the inflation rate. This is a strong indicator of demanding alternative investments like a secondary market.

4.4.4. Supportive legal system

The last point that to assess the presence of promising of demand side is the legal system that supports for demand side to participate in the market in full capacity and asked the respondent, do the legal system that governs the industry is supportive to participate in the market and Accordingly respondent Mean 3.6591 value the legal support to participate alternative investments like a secondary market.

But from the respondents, the proclamation of both SSPE and POEP limits the institutions to participate in investments other than thresher bills and government bonds, and the insurance investment directive also limited the institutional investor to participate in the secondary market accordingly to their risk preference.

4.5. Analysis for the readiness of the supply side to establish institutionalized secondary market in Ethiopia

The availability of the financial instrument that can be traded on the secondary market is the building block to establish an institutionalized secondary market, and this is directly related to the availability of the company they can meet the listing requirement and enlist on the stock exchange (Acharya, 2019).

Accordingly, Mulatu (2016) financial institutions which like banks and insurance will be the first phase participant or that can be enlisted stock exchange because of their financial transparency, Organizational nature and the most regulated and profitable company in Ethiopia compared to other share companies in Ethiopia. Besides Bayisasahu (2011) in his study, some Ethiopian companies can meet some African stock exchange listing requirements, and he found that 10 banks and 6 insurance companies can meet the listing requirement of some African stock exchange. Where, the researcher used 17 African countries as a reference to evaluate the Ethiopian share company among them Kenya, Ghana, Tunisia and others.

4.5.1. Plan preparation to enlist in the secondary market when started

Table 13: companies that prepared a plan to enlist in the secondary market

		Frequency	Percent
Valid	YES	2	6.25
	NO	30	93.75
	Total	32	

The study assesses the readies companies to enlist the stock exchange when started and asked the companies, Does a plan prepared to enlist in the stock exchange? According to the respondents, 93.75% of the respondent does not prepare a plan regarding the secondary market, 6.25% prepared a plan, and their plan addresses how it capacitates their manpower and other activities. So, the result implies that the supply side does not start activities to enlist the secondary market when started.

4.5.2. Cost-benefit analysis to enlist in the secondary market when started

Table 14: companies that prepared a study to explore to cost-benefit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NO	32	100	100.0	100.0

The study also assessed the readiness of the supply side by asking, does your institution conduct any study to explore the cost and benefit analysis related to enlisting in the secondary market when the market started? According to the respondents, 100% of the respondents didn't conduct any study regarding the cost-benefit analysis. The result implies that the supply-side does not start activities to enlist the secondary market when started. The reason why, the shareholders, board's director, and the management committee decision based on the detailed cost-benefit analysis related to enlisting in the secondary market.

4.5.3. Capacitate their staff to enlist in the secondary market when started

Table 15: the companies that started to capacitate their staff

		Frequency	Percent
Valid	YES	25	78
	NO	7	22
	Total	32	

The last point that applied to assess the readiness of the supply side is assessing the activities companies to capacitate their staff regarding the secondary market, and according to respondents, 78 % of the respondents started to train and capacitate their staff with collaboration national bank of Ethiopian and, 78 % of the respondents

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

The study provides a compressive review on the essential requests for establishing an institutionalized secondary market in Ethiopia lessons from developing countries. The research-based on the respondent view that was selected as a sample from NBE, AABE, ministry of trade, ESX, AACCSA, ETCCSA, head of the office of banks and insurance, Government employee social security fund, private employee social security, and share company manager, in addition developing country experience and related journals and literature applied to strength respondents fact.

5.1. Conclusion

Promising demand, availability of the company than can enlist in the stock exchange as supply side, stable political environment, commitment government, standard corporate governess, capacitate judiciary system, regulatory and supervisory body, uniform accounting and audit reporting system and standard, Trading and clearing and settlement infrastructures, brokerage firms, investment bank, aware and informed investors, trained and skilled manpower and stable macro-economic are founds essential requisites for establishing institutionalized secondary market in Ethiopia

Currently, the Ethiopian government has shown encouraging interest to launch secondary market in the country. And started to draft a proclamation to establish the regulatory and supervisory body. The proclamation has passed with the ministry of cabinet and is expected it will be passed in the parliament near time. The draft proclamation was prepared by the NB with the involvement of different stakeholders, expertise like a lawyer, economist, accountant, and other academicians, and also international and local advisory bodies. The draft proclamation addressed the basic issues to establish the regulatory body in Ethiopia but for the timing being no functional regulatory established any form.

The legal infrastructures have showing basic progress and it is supportive for establishing a secondary market in Ethiopia. The amendments of the commercial code address the basic drawback related to legal infrastructures and it creates the favorable condition to launch market

In addition independent and capable regulatory body, standard corporate governess, minority shareholder protection law, strong self-regulatory body, specialized courts that deal specifically to dispute secondary market and financial cases, enforceable disclosure law, Reputational intermediaries like auditor and investment bank and the last on credible and effective enforcement mechanism that include both administrative and criminal liability are founds essential need to develop effective legal and regulatory infrastructures.

NBE started to train and certifies judges and prosecutors related to the capital market but still, preparation of the judiciary system is limited to dispute the case related to the secondary market.

Uniformity of accounting and auditing report system and the standard has shown progress and it can consider as goods side or supportive to establish the secondary market. But still, accounting and auditing report system and standard low level as a country and different accounting and auditing report standard used by account and auditor in the country.

From the demand side, there is promissory demand regarding the secondary market, investors like pension institutions, insurance, and individual investor demanding alternative investment like secondary to improve their portfolio by diversifying their investments, to cup up the inflation challenge, and to maximize their return from their investment rather putting their investment in low return investment like Treasury bill and time depositing. But the legal system needs like the proclamation for pension funds need updating to improve the investor base

From the supply side, finical sectors like banks are expected to enlist in the market at the first phase and they are started to train their staff and the management but as a whole readiness supply-side related to the secondary market to enlist in the exchange center is very low.

Related to the market infrastructures, there is no regulated trading system currently to establish an established market and in addition, the payment system of the country is capable to launch the market but because of the absence of a central depository system is the clearing and settlement infrastructure not developed furthermore the other requisites which like legal base, operational requirement, standards, and basic related to market infrastructure.

Education and creating public awareness have been started by NBE and the private sector but it is limited and does not distinguish depending on their role in the market which is as institutions and individuals. In general, it is very low and no formal institution starting to improve the awareness of the societies to develop well-informed and active investors.

Trained and skilled manpower is also one essential requisite to the development of effective secondary in Ethiopia especially for those involved in the market and staffing in the institutions. And NBE Starting to fill the gap related to the availability of trained and skilled manpower to collaborate with international institutions to trained and certify. Despite that, it is low still low needs additional commitment.

The macroeconomic of the country is now capable to establish a secondary market in Ethiopia. The GDP, foreign direct investment, privatization, and the homegrown economic reform has given for the favorable to lunch secondary market Ethiopia but still need additional commitment to require to stabiles the macroeconomic like two-digit inflation rate that harm the stability of the macroeconomic.

5.2. Recommendation

- Finalizing the proclamation and establishing a regulatory body is a baseline to conduct other tasks so the government should prioritize the approval process
- Placing regulatory body and start and control the basic tasks like developing the basic standard
- upgrading proclamation to government employee security agency, private employee security agency and community health insurance fund considering the right balance between the risk and their investment to improving the investor base
- Relaxing the directive related to insurance investment under considering the risk and their investment rather than forcing them to put their investment government in T-bill to improving the investor base
- To improve the readiness of the supply side, the discussion with financial sectors related to their role in the market and the benefit to enlisting in the market when the market lunch should be done simultaneously with another task. This helps the financial sectors to readiness
- Incentive programs like tax examination to enhance both supply and demand-side should introduce

- Additionally Intensive and continuity awareness creation program should be done simultaneously with other tasks using TV stations, radio, social media, and media.
- To feel the gap related to the availability of trained and skilled manpower Collaboration with University and private sector to train and certifies the manpower that helps to produced skilled manpower in short term and saving the hard currency to expense related to trained and certifies.

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APPENDIX

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSSINESS AND ECONOMICS

DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION

QUESTIONNAIRE FOR RESPONDANT

Dear Respondent,

The purpose of the Questionnaire is to study Essential requisites for establishing institutionalized secondary market in Ethiopia lessons from another developing to fulfill the Master's program in master of business administration in finance. The researcher assured for used Questionnaire only for academic purpose and confidential.

Thank you for your participation,

Dagim Yohannse

yohannsedagim@gmail.com

Tell 0913217507

Section I

GENERAL INFORMATION

Please indicate whether you agree or disagree with each statement by ticking ( ) on the spaces that specify your choice from the options that range from “strongly Agree” to “strongly disagree”

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

Section one

Gender: female ☐ male ☐

Age less than25 ☐ 25-29 ☐ 30-34 ☐ 35-39 ☐ 40-45 ☐ above 45 ☐

Educational level: Diploma ☐ Degree ☐ Master ☐ PhD ☐

Section II: essential requisites for establishing institutionalized secondary market in Ethiopia **SA=strongly agree A=Agree N= Neutral D= Disagree SD= Strongly Disagree**

No	The essential factor for establishing institutionalized secondary market in Ethiopia	S.D 1	D 2	N 3	A 4	S.A 5
1	Essential requisite for establishing institutionalized secondary market in Ethiopia					
2	Establishing regulatory and supervisory body to regulate the secondary market					
3	Placing standard corporate governance to protect investors					
4	Capacitate of judiciary system to dispute the stock market case					
5	Improving of Political stability					
6	Increasing of investor awareness about secondary market					
7	Establishing well-organized trading infrastructure for trading of financial instrument					
8	Development of market infrastructure related to the trading of financial instrument					
9	Preparing Trained and skilled manpower					
10	Establishing of brokering firms					
11	Continuity of Government commitment					

Source :(Mulunesh, 2019)

Section III: Essentials needed to develop legal and regulatory infrastructure to establish institutionalized secondary market in Ethiopia.

NO	Essentials needed to develop legal and regulatory infrastructure	S.D 1	D 2	N 3	A 4	S.A 5
1	Independency of the regulatory body					
2	Credible and effective enforcement mechanism					
3	Strong enough legal protection for minority shareholder					
4	enforceable disclosure rule					
5	Establishing a special court that dispute the stock market case					
6	Proper power for a self-regulatory body					

Section: IV; Does the demand-side is promissory to participate In Secondary Market?

NO	Demand-side analysis	S.D 1	D 2	N 3	A 4	S.A 5
1	Institutional investors put their investment funds or surplus money in a time deposit or buying a treasury bill with less interest rate imply that your Institution demanding alternative investment which like secondary market					
2	Institutional investors involving in a limited form of investments choice implies that Institutional investors demanding alternative investment which likes the secondary market					
3	Institutional investors putting their investment funds in a time deposit and government bonds with lower interest rate compared to inflation rate because of the absence of alternative investment choices of which like equity market					
4	the legal system is supportive to participate for Institutional investors in alternative investments like secondary markets in full capacity					

Source of questionnaire:(Kiflework, 2018)

Section V: Is supply-side or ready to enlist in the Secondary Market in Ethiopia? For Banks and Insurance Only

1 . Does your company prepare a plan to enlist or register in the stock exchange market?

Yes ☐ No ☐

2 Does your company have done any study to explore the cost-benefit analysis to enlist or register in the stock exchange?

Yes ☐ No ☐

3 If your answer yes, are the findings studies discussed with the management team, board of directors, and shareholders?

Yes ☐ No ☐

4 Does your institution starting any preparation toward enlisting or register in the stock exchange?

Yes ☐ No ☐

If yes please state what has been done so far

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ADDIS ABABA UNIVERTY

COLLEGE OF BUSSINESS AND ECONOMICS

DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION

In finance

Checklist for interview

DEAR RESPONDENT

The purpose of this interview is to study Essential requisites for establishing an institutionalized secondary market in Ethiopia: Lessons from other developing countries. It is intended to fulfill the requirement for a master's program study in business administration, focusing on finance. The researcher assures all respondents that the reflections on the interview sessions are to be treated confidential and will be used only for academic purposes.

I thank you very much in advance for your cooperation.

Thank you for your participation!!

Section I
GENRRAL INFORMATION

Gender	Male	☐	female	☐		
Age	less than25	☐	25-29	☐	30-34	☐
	35-39	☐	40-45	☐	above 45	☐
Educational level	Diploma	☐	Degree	☐	Master	☐
	PhD	☐				

Section II:

Discussion checklist

1 Commitment of Government

- Establish legal and/or regulatory infrastructure to establish a secondary market
- Establish market infrastructure to establish a secondary market
- Revising economic policies
- Creating awareness program
- Stabling the political environment mainly rule of law
- Creating conducive Business Environment

2. Macroeconomic conditions,

- Country economic conditions of the country
- Inflation rates in the past consecutive years
- Economic growth
- Current GDP growth

3. Legal and regulatory infrastructure

- The regulatory and supervisory body
- Corporate governess
- Minority shareholder protection
- Accounting, auditing, and reporting standards of Ethiopia
- Judiciary system
- Proper Power, sufficient resources, Operational independency
- Self-regulatory
- Enforcement mechanism
- Disclosure rule

4. Market Infrastructure development

- Trading system
- Payment and settlement system
- Legal base and operational requirements
- Licensing and competency approval
- Regulating and supervising mechanism
- Brokerage firm
- Investments bank

5 social factors

- Investor awareness
- Trained and skilled manpower