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ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**ASSESSMENT OF FACTORS AFFECTING THE DEVELOPMENT OF CAPITAL
MARKET IN ETHIOPIA.**

PRESENTED TO

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Prepared By: Addis Molla

Advisor: Temesgen Work (Dr)

June, 2025

ADDIS ABABA, ETHIOPIA

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DEPARTMENT OF ACCOUNTING AND FINANCE**

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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE IN
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SCIENCE IN ACCOUNTING AND FINANCE**

Prepared By: Addis Molla

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Advisor: Temesgen Work (Dr)

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SIGNATURE PAGE

Assessment of Factors Affecting the Development of Capital Market in Ethiopia.

By: Addis Molla

Advisor's Name: Temesgen Work (PhD)

Signature: _____

Date: _____

Internal Examiner's Name: Abebe Yitayew

Signature: _____

Date: _____

External Examiner's Name: Tenkir Seifu (PHD)

Signature: _____

Date: _____

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LIST OF ABBREVIATIONS

ECMA: Ethiopian Capital Market Authority

WB: World Bank

DSE: Dar-es-Salaam Stock Exchange

ECB: European Central Bank

AACC: Addis Ababa Chamber of Commerce

CBE: Commercial Bank of Ethiopia

EASC: East Africa Security Company

GDP: Gross Domestic Product

IPO: Initial Public Offering

NBE: National Bank of Ethiopia

IPO: Initial Public Offering

SEM: Stock Exchange Market

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ABSTRACT

This study focused on the challenges affecting the development of the capital market in Ethiopia in line with its prospects for investors and government for economic development aiming to describe possible challenges related to the development and efficient operation of the market. The study applied a descriptive research design with qualitative data analysis method based on the data collected through structured questionnaire from key participants like; National bank of Ethiopia, Ministry of Finance and Economic Commissions, Commercial banks board of directors, Insurance companies, Investors and other professionals. The study reveals that the effect of level of awareness, lack of adequate regulatory system, inflation, infrastructure and development of financial institutions, investors' business culture, and government privatization policy are the major challenging factors for the development of Capital market in Ethiopia. The study also forwarded recommendations like taking initiatives and cascading the responsibility of capital market development for different financial institutions. Furthermore, laws and regulations, technological infrastructure, and capacity of financial and non-financial institutions should be evaluated and provide support. Generally, government should accept financial support from different professionals and organizations either it be local or international, as long as the interest of the country is secured.

Key Words: capital market, development, infrastructure, financial institutions, GDP.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of study

Capital market is a significant tool for companies to raise money from the larger financial sources. Stock exchange stimulates investments by placing unused money or savings to work and by playing the role of an intermediary between those who borrow and lend money cheaply (Etienne, 2008). Capital markets started at the dawn of the industrial revolution that swap through Europe. The older organizations for trading were individuals, owners trading on their own accounts, and partners in business. There are now a number of capital market operations in the world through which securities can be bought or sold (Guiso & Jappelli, 2005).

The difficulties in allocating funds are greatly made worse by the flow of both public and private capital, especially in developing countries. According to Pandey (2008), capital markets facilitate the trading of securities, such as stocks, bonds, and debentures, on which a large number of investors conduct daily transactions. Through screen-based trading systems, these transactions are visible to the general public. The primary market and the secondary market are the two interdependent segments that make up capital markets.

The primary market, also referred to as the new issues market, is where businesses issue new securities in order to raise money. On the other hand, existing securities those that have already been issued by listed companies are traded on the secondary market. The secondary market is also known as the stock market because these securities are purchased and sold on stock exchanges (Pandey, 2008). A financial system is a set of laws and guidelines that make it easier for lenders, intermediaries, and borrowers to exchange financial assets. It is made up of markets and institutional organizations that work together, frequently in intricate ways, to support payment systems, raise investment capital, and fund public and private endeavors (Alfaki & Mazahir, 2015). The financial system is a necessary phenomenon for an economic activity and makes the utilization of monetary tools and credit providers efficiently. The role of principal in the free market economy involves maximizing resource allocation with efficient management of scarce resource towards the maximum return and most likely economically efficient projects (Mulunesh, 2019).

According to the literature presented by (Guiso & Jappelli, 2005), markets with low level of infrastructure development usually hinders financial and non financial trading activities due to the presence of high transaction cost, time consumption and high level of operational risks. For example the growth of capital market in India, facilitated by the enhancement of depository and settlement systems that helps to show high level of development and increase in volume of transaction. However, such economic progress should have to be directed by efficient legal and regulatory frameworks to insure its transparency and of ownership and effective market settlement processes for the market participants.

Effective monetary policy affects the development of capital market and capital expansion by securing high level of liquidity to market participants and sustain short term interest rates. In the process of capital market development , central banks should focus on minimum daily interest rate fluctuations with clear and concise regulatory directions. Reduction in volatility of rates in the short term may result in the rise of investor's confidence in the long term securities and enhance their financial intermediaries to be part of the maturity transformation and increase the development and development of capital market (Zsófia and Geoffrey, 2008). The development of country's economy is determined by nation's progress across its key economic sectors like corporate, government and household sectors. Those sectors provide support in different financial environments with surplus/deficit/ balanced budget situations. For capital market development , key intermediaries in the financial system effectively transfers fund from the area of surplus to that of deficit balances (Barua, "et al" (1992).

In the development of capital market development , the relation between trade-in programs, re-manufacturing operations, and the demand for re-manufactured products are revealed by the capital market. Capital market development interrelates with the availability of used products gathered through trade-in programs determines the supply of re-manufactured goods, which in turn affects demand for them. The demand for new products and the allure of trade-in rebates are the two main factors that influence this collection volume. In light of these interrelated relationships, businesses must thoroughly examine and comprehend the relationship between the demand for re-manufactured products, the efficacy of trade-in programs, and re-manufacturing capacity in order to maximize their operations (Alfaki & Mazahir, 2015).

The main aspects of capital market development are improving market liquidity, involvement of intermediaries with specific aspects like, tightness, depth, and resilience for the efficient development of capital market development . Tightness refers to the cost of executing transactions in the market, its most frequently used indicator being the bid-ask spread. The depth dimension indicates the extent to which the market can absorb large volume transactions without affecting the prices prevailing at the time of the transaction (The Bank for International Settlements, 2001).

Even though there are many advantages to having deep and liquid government securities markets, most developing and emerging nations struggle to catch up to more developed markets. Notably, different countries have different levels of success with domestic currency government securities markets. Economic returns are dependent on trading volume, which is a function of the size of the economy, even though infrastructure setup costs for governments and market participants may be similar worldwide (Claessens et al., 2003).

The current growth status of share companies, the need for significant capital investment across different business sectors, unbalanced market share between individuals and companies, and unequal investment opportunity between companies and individuals needs the efficient operation of capital market in Ethiopia. Therefore, describing and relating the expected challenges and procedural requirements for the efficient operation and development of capital market is the major aim of this study. In addition to this the study will focus and relate the current government initiatives in the financial market industry and privatization of different government-owned business sectors to support and encourage investors to invest in diversified areas of operations.

1.2. Statement of the Problem

Budgetary restrictions, low savings, and population growth make it more and more difficult for governments in developing nations to finance public enterprises with government funds. The majority of developing and emerging nations have had difficulty establishing markets that are on par with those in the majority of developed nations, despite the many advantages of having deep and liquid capital markets for government securities. It is crucial to remember that not every nation may be able to establish markets for domestic currency government securities. Although the fixed costs incurred by the government or market participants to establish the infrastructure may be relatively comparable across nations, the advantages rise in proportion to the volume of

trade, which in turn reflects the size of the economy. In fact, Claessens et al. (2003) discover that larger economies with proportionately larger domestic investor bases tend to have larger government securities markets, suggesting that there are economies of scale in securities market development.

By addressing current inefficiencies in the region's economic expansion, capital markets in Africa represent a new frontier for financial sector development and economic growth. Several African countries, including Tanzania, Rwanda, Kenya, Eswatini (formerly Swaziland), Botswana, Ghana, Malawi, Zambia, and Uganda, have established stock exchanges (Jared et al., 2013). Before 1989, North Africa had three stock markets, compared to just five in Sub-Saharan Africa. In many African nations today, the creation of stock exchanges is a crucial part of domestic financial liberalization initiatives.

Focusing on the economic integration and growth of financial market, the establishment of capital market or stock exchange market in Africa linked with a number of factors throughout the continent in recent decades. These factors include the process of accepting modernization of financial sectors, raising foreign investment and capital mobilization. The Dar-es-Salaam Stock Exchange (DSE) market is one of the emerging stock exchange markets facing challenges that hinder the efficiency, sustainable growth, and development of the market.

When it comes to Ethiopia, the customary primary market is the only operating market, and the establishment of a capital market takes a long journey through developing policies, procedures, and other infrastructural issues. Different scholars argue that the establishment of a capital market in Ethiopia would highly attract foreign investment and become one of the areas of investment destinations in Africa, especially in Sub-Saharan countries. Besides the challenges and requirements that now hinder the development of the capital market in Ethiopia, the development of the market will create an opportunity to easily access investment and transparent economic operation that leads to sustainable economic growth.

According to research by Mulunesh (2019), establishing a stock exchange in Ethiopia might promote economic expansion in a number of ways. First, by enabling quicker and more liquid securities trading, it would increase market efficiency. Second, it would offer a number of economic advantages, such as: (1) mobilizing domestic savings; (2) boosting financial institution competition; (3) increasing remittance flows; (4) improving corporate governance standards; and

(5) offering a variety of financing options for projects with different time horizons. Researchers like Abebe, (2006), and Ali, (2026) found out that major challenges for the growth of capital market in developing countries like Ethiopia can be generalized as lack of knowledge about security market development , limited participation of local and international investors, efficiency of market mechanisms.

Different research works has examined the potential of Ethiopia's capital market development and from them Teklehaymanot, M (2014) conducted an analysis both in the prospects and challenges of the development of capital market in Ethiopia. Managing the second largest economy in the sub Saharan Africa still experienced significant economic constraints due to lack of capital market. In line with this findings Ejigu, (2012) conducted an assessment of the prerequisites for the development of capital market in Ethiopia. For the development of capital market the study identifies three key factors like, rapid growth of share companies, critical need for capital infusion and increasing domestic savings capacity.

Unlike other studies, assessing and analyzing the economic advantages, challenges related to the NBE requirements of capital market operation, and consequences of capital market development , this study will focus on major challenges affecting the development of capital market to get a clear understanding since the development of capital market is still under different difficulties. Besides the general overview of the capital market which most of the studies in Ethiopia described before, the challenges and basic requirements of the capital market have not been fully addressed and this research will help to fill such gaps.

1.3. Research Questions

The study aims to describe the possible challenges for the development of capital market in Ethiopia and how those factors affect the efficiency of capital market. Based on this the study developed five research questions;

- a. What are the possible challenges and requirements for the development of the capital market in Ethiopia?
- b. What are the effects of the current level of awareness of investors regarding capital market?
- c. How does the current financial system of Ethiopia support the development of the capital market?

- d. What policies and procedures are needed to the efficient development of capital market in Ethiopia?

1.4. Objectives of the Study

1.4.1. General Objective

The study's general objective is to assess the possible challenges affecting the development of the capital market in Ethiopia.

1.4.2. Specific Objective of the study

- a. To identify and describe the anticipated challenges and requirements to the development of capital market in Ethiopia.
- b. To describe the level of awareness of investors and its effect on the development of capital market.
- c. To assess how the current financial system of Ethiopia supports the development of Capital market.
- d. To describe major policies and procedures needed to the development of capital market in Ethiopia.

1.5. Significance of the study

The study in general would provide the reader with a comprehensive idea about factors affecting the development of capital market in Ethiopia. Based on the study literature review conducted on the implementation of capital market in Ethiopia by different researchers provide mainly with the way how to implement capital market. From this study different stakeholders will benefit and help them to see and assess their capacity and challenges as indicated as follows;

First, the study will help other researchers to take it as a reference since the establishment of capital market in Ethiopia is aged less than a year and it will have its own operational challenges in the future to be analyzed and evaluated. Second, implementing parties such as government, the capital market authority and government owned business organizations will review and benefit from this study finding to put their interest and priority at the center to gain financial efficiency and smooth market operation. Third, investors from various business sectors and individuals will use the study as a reference to make investment decisions and participate in the market. Generally, the assessment of factors affecting the development of capital market from

the external point of view would help similar organizations to evaluate their practices and consider it as an instrument for improving their trend and involvement of investment in the future. .

1.6. Scope and limitation of the study

Since the objective of the study is to assess factors affecting the development of the capital market in Ethiopia, the scope of the study is limited to the current implementation practice and operation of the market. The study focuses on the assessment of major factors affecting the development of capital markets and forward justifications based on the data collected from selected financial and non institutions like; National bank of Ethiopia, Ministry of Finance and Economic Commissions, Commercial banks board of directors, Commercial bank staff, Insurance companies, Investors and other professionals, audit firms with 150 total population size. Moreover, the study will also include secondary data sources like theoretical and empirical frameworks to make the study inclusive of both primary and secondary data sources.

1.7. Definition of related terms

- **Capital Market:** is a market where shares, equities, government and private bonds or other related securities are bought and sold.
- **Capital Market Participants:** Capital market participants are market service providers, issuers of securities, investors, securities exchanges, eligible counter parties to eligible contracts, and securities depository, and clearing companies.
- **Primary Market:** Primary market represents the marketplace in which new capital is created or raised by selling newly issued stocks, bonds, notes, and other financial instruments through initial issuance of securities. .
- **Secondary market:** Secondary market represents the marketplace in which previously issued securities are traded with investors as opposed to the primary market, where investors buy new securities directly from the issuer or an intermediary.
- **Inflation:** is a continuous increasing trend in the general level of price or when the supply of money is greater than availability of goods and services.
- **Infrastructure:** is public goods and services which helps the people in the production process as an input of production.

- **Financial Institutions:** are organizations that help to act as an intermediary between the lenders and borrowers or facilitate the flow of funds from cash surplus to that of deficit.
- **Debt Security:** A debt security is a type of financial instrument that symbolizes an issuer's (usually a government, business, or financial institution) contractual duty to pay back borrowed money within predetermined parameters. These tools are used to raise money without reducing ownership, and they either create or acknowledge debt.
- **Gross Domestic Product:** is a measure of total value of goods and services produced by a country's economy within a specific period.

Source: (NBE Proclamation 2020).

1.8. Organization of the Paper

The organization of the study is classified into five sections or chapters including the introduction section which deals with an overview of the study problem statement and background, research question and objectives, significance, scope and limitations, definition and organization of the paper. . The second section deals with theoretical and empirical literature review. Section three focuses on the research methods, methodology, population size and sampling, and data sources in brief. In the fourth section, the main part of the study, i.e. data analysis and findings of the study, will be presented based on the collected data . The last section, summary and recommendation of the study is part of section five and provides summary of key findings and suggest possible recommendations for the efficient operation of capital market in Ethiopia.

CHAPTER TWO

2. LITERATURE REVIEW

In this chapter, both theoretical and empirical literature review gives a clear understanding of the development of capital markets in developing countries in general and relates the concept to the Ethiopian context.

2.1. Theoretical Literature Review

2.1.1. Definition of Financial Market

The exchange of financial assets is permitted and facilitated by financial markets. Financial markets include, for example, the bond and stock markets. For those who come to transact assets, financial markets offer a number of advantages. They transfer surplus funds to lucrative ventures. The growth of nations' economies is significantly influenced by their financial markets.

Financial markets serve as a conduit for savings for people and organizations that require more money for spending than their present incomes can supply. Regulators, market participants, financial institutions, financial markets, and other stakeholders make up the financial system. The financial system's money and capital markets enable the conversion of savings into investments and the exchange of present income for future income, both of which raise living standards, income, employment, and production Rose (2001).

2.1.2. Types of Financial Market

Financial markets also vary depending on the maturity of the securities being traded and the types of assets used to back the securities. For these reasons, according to Rose, (2001), it is often useful to classify markets along different dimensions.

- **Spot versus futures markets:** Markets for assets that are purchased or sold for "on-the-spot" delivery that is, within a few days are known as spot markets as opposed to futures markets. Participants in futures markets commit today to purchasing or disposing of an asset at a later time.
- **Money vs Capital market:** The markets for short-term, highly liquid debt securities are known as money markets, as opposed to capital markets. One could give the markets for Treasury Bills, foreign exchange, and certificates of deposit in Ethiopia as

examples. The money markets in Tokyo, London, and New York are some of the biggest in the world. Corporate stocks and intermediate- or long-term debt are traded on capital markets.

- **Private vs public market:** Standardized contracts are traded on organized exchanges in public markets, whereas two parties negotiate deals directly in private markets. Bank loans and private debt placements with insurance companies are examples of private market transactions. Since these transactions are private, they can be arranged however it is most convenient for both parties. However, many people wind up owning securities, such as common stock and corporate bonds, that are issued on public markets.
- **Primary versus capital markets:** Companies raise new capital in primary markets. Capital markets are marketplaces where investors trade securities that are already in circulation. The stock exchange and over-the-counter markets are the two primary categories of the capital market. Stock exchanges are merely a centralized platform that allows securities trading without requiring buyers and sellers to communicate. Decentralized markets with participants trading among themselves are known as over-the-counter markets. because the parties deal directly with one another and there is no regulatory body involved (Rose, 2001).

2.1.3. Capital Market

Singh (1997) claims that capital markets play an essential role to increase economic growth and development of country's financial sector. In addition to the increase in economic growth capital market helps to increase the size and effectiveness of investments while supporting the culture of domestic savings. Starting from the late 19's capital market development acts an an essential part of the market with direct regulation and followups by the governed parties. Through this capital market acts as a major platform for capital raising from investors, individuals, business, corporations and governments.

Capital market is a formal market that trades different financial instruments of the given specific issuer at a given price and time. This market is systematically arranged with rules and regulations according to the laws and financial policies of the given country. The efficient functioning of financial markets is important not only to investors who trade often but also to listed companies

and corporations that issue their IPOs on the market. In this context, the trading system in which securities are traded is an extremely important part of the functioning of the markets.

2.1.4. Importance of capital market

According to different scholars, having a capital market in one country has different benefits and is called silent benefit. From the major silent benefits listed or mentioned by different scholars the following are listed as they directly related with this research as follows:

- **Enhanced saving mobilization and risk management:** Capital market development provides investment opportunities through the issuance of bonds and national savings. It gives higher return than the customary bank saving interests and it gives an option for investors to diversify their risks through different industries which helps them to reduce the risk/return trade off balances (Tessema, 2003).
- **Offering Liquidity to Investments:** Capital market help investors to preserve their liquidity level with better return compared to other investments. The higher the level of liquidity increases investment and saving culture, which leads to better economic growth. Levine (1996), explained in his analysis that countries with highly developed financial systems and capital market development , shows quicker investment accumulation and higher level of productivity growth because of the the increase in the level of liquidity which gives an assurance to exit from long term investments. Furthermore, the development of capital market also attract the involvement of households to invest their savings in the market. However, the development of too much capital market in the system will have indirect effect on the growth of country's economy by reducing the motivation of permanent investment Yartey and Adjasi (2007).
- **Redistribution of wealth facilitated by diffused ownership:** The involvement of capital market in the financial market, helps to democratize wealth creation and redistribution for the larger range of community with those who own lower income to invest in different corporations. Capital market development reduces income inequality by distributing investment profits to the larger of shareholders (Etienne and Vincent, 2008). Moreover, the research work conducted by Tessema, (2003), explained that having the wider distribution of investment profits within the larger group will create

sense of ownership and it will push them to protect their business interests without religious and ethnic differences.

- **Improved Corporate Governance:** In order to have efficient and transparent capital market development , the system needs internal or self regulatory system and external parties who have the power to supervise the market with full legal power. The main purpose of the need for this regulation are efficient corporate management, demoralize unethical practices and support the larger corporate governance standards. (Etienne and Vincent, 2008).
- **Efficient Resource Allocation:** capital market enables us to allocate capital through different security markets that keeps the normal and efficient societal needs and raising productivity. Without having capital market most company will stick on their internal resource and bank loans which affects the development of newly growing enterprise because of the unavailability of sufficient finance for the expected future demand of their product to be provided for the society (Tessema, (2003) .
- **Alternative to Taxation:** The development of capital market allows government to borrow money to finance huge infrastructure projects by selling another category of securities known as bonds to the larger people which gives the right to buy these public bonds from the market (Etienne and Vincent, 2008).

2.1.5. Stock Exchange Market in Africa

Stock exchange market development in Africa plays a major role in the contentiously growing economic development of different developing countries over the past two decades. The availability of liquid equity market helps investors to easily raise funds and obtain equity capital with lesser transaction cost and easy allocation of benefits between creditors of the company. By facilitating longer-term, more profitable investments, a liquid market improves the allocation of capital and enhances prospects for long-term economic growth. However, the increase in the number of stock exchange markets in Africa has been derived from the expansion and reformation of the financial sector undertaken by African countries to improve the economic environment and stimulate economic growth. This process of reformation has undergone different measures on restructuring and privatization of state-owned banks, promotion and development of capital markets, interest rate liberalization, and credit ceilings Levine (1997).

2.1.6. Challenges of Capital market

2.1.6.1. Level of economic development

The development of capital market mainly relies on country's level of macroeconomic stability and strong regulatory body who can enforce the market participants to participate with equal access to the information from the market which reduces the vulnerability of investors in the financial system. According to the study conducted by (Biekpe, 2004), keeping low and steady inflation rates helps for the development of capital market and long term investment from domestic and foreign investors. Since inflationary pressures reduce the involvement of investors and minimize investment return with high level of uncertainty.

According to different theoretical data, having stable, moderate inflation and stable macro economic level helps to create better environment for the development of capital market and country's economy as whole. In contrary to this a study conducted by Asrat (2003), the relation between income distribution and capital market development shows complicated paradox this is because high level investors have access to get higher benefits during the early stage of capital market development despite the fact that says the development of capital market democratize investment opportunities for all investors. This inequality continues until the size of spectrum increases across industries, diversified type of investment, efficient participation of households across different business sectors.

2.1.6.2. Inflation

Development of capital market experienced dynamic changed because of the existence of inflationary environment in the country's economy. In any case the major interest of an investor is to get higher yield from the investment, but the increase inflation mostly push the level of interest rate to the higher level which leads to decrease the level of investment return in the long run. Furthermore, experiencing higher level of inflation decreases the purchasing power of domestic customers and it also pressurize interest rate upward which forces investors to move from equity market to bond market to benefit from the higher interest rate returns. Inflation which is one of the macroeconomic variables is used as an indicator of the economic stability of any economy. It has a multidimensional impact on the economy of a country (Izedonmi & Abdullahi, 2011).

Inflation has been used as a measure of macroeconomic stability in developed and developing countries (Ruecker (2011)). Inflation is an essential indicator of macro economic stability and the connection between capital market development and macroeconomic stability has been in question among different scholars about the specifics of these effects. The change in the level of interest rate due to high level of inflation resulted in a challenge for lenders and borrowers to plan accordingly, frequent re balancing is required frequently. Therefore, the cost of all the above expenses that comes to the capital market increases the frequent adjustments and more focuses is needed in proactive financial position management systems Asrat (2003).

2.1.6.3. Institutional Development

Financial institutions are intermediaries connecting the savings of different organizations and individual investors with the available source of capital like; loans, and investments and government bond purchases. Financial institutions can be categorized as depository institutions (Banks Credit unions and saving and loan associations), Contractual institutions (Insurance, and pension funds), and Investment institutions (Finance companies and mutual funds). Lovine (2004), identified and summarized five key functions that a financial institution provides in facilitating growth:

- Mobilizing and pooling savings
- Producing investment information
- Monitoring investment and exerting corporate governance
- Facilitating trading, diversification, and management of risk
- Facilitating the exchange of goods and services

The improvement of investors confidence mainly depends on the development and efficiency of financial institutions since they are the essential pillars of capital market development . Financial development thus involves the establishment and expansion of Financial institutions, financial instruments, and capital markets are interrelated in different ways to support investment and growth process. Theoretically, the role of banks and non-bank financial intermediaries ranging from pension funds to stock markets, has been to translate household savings into enterprise investment, monitor investments, and allocate funds and maintain equability throughout the market participants Yartey and Adjasi (2007).

When it compared to the 19s and early 20s century the development and level of efficiency of financial institutions shows improvement and this leads attract equity investment as political risk is resolved over time. Major characteristics of good quality financial institutions such as law and order, democratic accountability, and bureaucratic quality as important determinants of stock market development in Africa because they reduce political risk and enhance the viability of external finance. provides evidence that higher levels of political risk are related to higher degrees of market segmentation and consequently low levels of stock market development Biekpe (2004).

2.1.6.4. Legal requirement

In developing countries like Ethiopia, the challenge for the development of capital markets and an inadequate legal and regulatory framework is a common phenomenon in developing and emerging capital markets. There should be clear and well-defined rules for the issuance of government securities and borrowing authority. The capital market should be supported by effective regulation through a securities regulatory authority and rules related to market participants, market conduct, transparency requirements, and clearing and settlement procedures. These rules should reduce informational asymmetries and ensure a level playing field within each class of market participant. This is particularly important for attracting international investors Araya and Tadewos, (2020).

According to the study conducted by Hamilton (2007), majority of businesses operated in Ethiopia are owned by family or otherwise close relatives without considering the capacity of the market and availability of sufficient capital to the business. In relation to this business organizations owned by families and relatives are mostly formed as private limited companies and in the contrary largest companies are controlled by government or state bodies.

Hamilton pointed out that such companies account for a larger part of the economy than privately owned companies, which can add a political tone to doing business. State-owned companies are not organized under the company law and thus are not subject to its rules and protective provisions to support the development of capital market in the country. Regulatory

restrictions on investment, portfolio allocation and the trading of government securities by market participants all lead to distortions in the market and the financial system, as well as limit the ability of investors to assume or hedge risks. Regulatory restrictions on asset maturities and types are widespread Dattels, P., (1997).

In relation to legal requirements and policy procedures for the development of capital market recommendations proposed by Araya and Tadewos, (2020), and are summarized as follows:

1. The commercial code of Ethiopia be revised with the view of removing certain provisions that lead to a drawn-out registration process and amending others to enhance investors' protection afforded by law.
2. A regulatory agency be established with broad and direct authority over the operation and further development of the Ethiopian market.
3. All share companies should be registered by this agency before their shares are sold to the public. The agency should issue regulations regarding disclosure requirements that will ensure that investors have 'full and fair' disclosure of pertinent information in connection with security offerings.
4. Legal and administrative impediments restricting their ability to make investments in securities be removed, and they are encouraged to make prudent investments in instruments.
5. In parallel with implementing the above recommendations, a detailed study be initiated covering all relevant macro and micro aspects.

2.1.6.5. Infrastructure

Capital market development needs sound and efficient market infrastructure connecting the counter parties in securities transactions, capital market participants and intermediaries as a whole. A slow and inefficient securities settlement structure is a fundamental impediment to capital market development since it raises settlement and operational risk, increases transaction costs, hinders price discovery, and may restrict the range of participants in the market. According to the study of long-term interest rates and bond markets, international trading and settlement systems may allow smaller countries access to sound market infrastructure, by reducing fixed costs. The development of capital markets will also be hampered by an inter bank market that

lacks liquidity, suffers from excessive volatility, or cannot be accessed by major market participants, European Central Bank, (2003).

In the absence of sound and effective public debt management based on long term market oriented strategies and operational frameworks, the development of efficient capital market development would be impossible. lack of benchmark securities in the process of capital market development resulted in continuous problem in market depth and level of liquidity, Fry, M, (1997).

2.1.6.6. Level of awareness

In the development of capital markets, technical skills and knowledge related to the capital market are necessary to have a well-functional market in the country. The current development of financial institutions and the privatization process gives the way to investigate and share knowledge in the international financial market operations.

According to Araya and Tadewos (2020), capital market development can be further hindered by too frequent primary auctions, since the high frequency of auctions creates disincentives for market participants to engage in capital market trading. In other cases, lack of transparency and communication between the authorities and market players increases uncertainty for investors and reduces participation in the markets since information asymmetry affects the profitability of investors. Financial market participants (buyers and sellers) of securities come together with the helps of intermediaries in the capital markets thereby facilitating a transaction to close as quick as possible. When a buyer or seller cannot be located readily, a financial intermediary may function as a dealer and may sell from his stock of securities or purchase for his own account, respectively. In other cases, the company may deliberately mislead potential investors into buying its securities by painting a rosy picture of itself in the company prospects and other publications.

2.2. Empirical Literature Review

2.2.1. Overall Review of Capital Market

From the empirical literature review the case of Tanzania's capital market development process the challenges experienced was high level of inflation, currency depreciation over dollar, unemployment, population increase, and poverty. These factors may affect either indirect or direct economic stability of the country. For instance, in February 2012, the inflation rate was 19.8 which was a persistent increase in the general price of basket of basic goods and services such as diesel and petrol, transport cost, sugar, and food in general. This inflation sometimes affects the purchasing power of the currency since the value of the shilling depreciates and hence affects trading in the stock market in Tanzania by increasing the cost of trading stocks. The currency depreciation over the dollar also affects the macro-economic stability of the country which leads to inflation. Sustainable macro-economic stability may accelerate the growth and performance of stock exchange by motivating investors to invest with positive expectation; also vice versa is true under “Ceteris Paribus.”

According to World Bank, inflation has been fluctuating and not stable, at the end of 2012 the annual average inflation was 16% while the peak was in January and February, 19.7% and 19.4% inflation respectively (NBS, Tanzania) Jared, “et al”, 2013.

The research journal of Jared, Casius, Henry and Xu, 2013, indicated that, Tanzania's capital market development was affected by policy and decision makers who played limited role in the market. Generally, the capital market analysis in Africa still shows narrow in its operation, small and non-liquid which is very discouraging for local and foreign investors to participate in the market. Having mind that the existing challenges and stress in the development of capital market in Africa, DSE has been assisting companies to raise funds for financing business operations and expansion of business projects. The main decision made by the Tanzanian government decision makers was increasing the size of the stock exchange market in Tanzania, creating public awareness, improving information technology, improving electronic automation system for trading of securities, and professionalism with better regulatory enforcement to improve stock market efficiency. Yartey, and Adjasi, (2007).

2.2.2. Capital Market Development in Africa

Most of capital market developments in Africa were founded based on the political and economic decisions that were translated into the legal framework for the establishment and operation of the stock exchanges. The study of stock market development economic growth in sub-Saharan Africa found out that capital market development contributes to the country's growth Kibuthu, W. (2005). Capital market development leads to economic growth, due to the relative underdevelopment of these markets or economic stagnation of the region. The stock market development and economic growth in Africa by comparing countries with stock market and countries without capital and financial market in African countries is still at limited impact on the overall economic growth Ngare, "et al". (2014).

A study conducted by Osakwe and Ananwude, (2027), on the development of capital market in Nigeria and South Africa and summarized that financial market indicators was used as a measure of economic growth and listed as, market capitalization, turnover ratio, total value of shares traded ratio and inflation rates.

2.2.3. Capital Market In Ethiopia

According to Jetu (2014), in the context of Ethiopia, the absence of institutional, legal, and policy framework for capital market activity, may adversely affect liquidity thereby adversely impacting economic development. Unlike the current government which gives high emphasis for capital market development and privatization of government owned business, the previous track record of the country ruling parties were known by lack of commitment on the part of the government to establish prudent regulatory infrastructure hampering Ethiopia 's stock market development. This indeed impedes the development of the stock market and dwarfs down its role in the Ethiopian economy.

Different studies conducted over the last few decades indicated the challenges and prospects that the country will encounter after the development of Capital market. The reluctance of the government, inadequate laws and regulations, insufficient technological infrastructure, and low level of public awareness were mentioned as the challenges to the development of capital market. In contrary to this the current economic growth of the country, the agenda of poverty reduction, privatization effort and unexploited resources, thus government needs to take pragmatic measures to establish capital market and further reform the legal, institutional and accounting

and reporting requirements as necessary and efficient o accommodate the current financial transaction needs of the community Mulunesh (2019).

2.3. Research Gap

As indicated in the problem statement of this study, different researchers conducted their study focusing on the challenges and prospects or difficulties associated with capital market development in Ethiopia. Teklehaymanot, M. (2014), focuses on potential and challenges of capital market development and found out that lack of capital market operation still kept the country to be the second largest economy in the sub Saharan Africa. Similar to this considering the existing opportunities, challenges, and infrastructure requirements for establishing a capital market in Ethiopia and concluded that the establishment of a stock market is very important because of the current growth in the number of share companies, the need for significant capital investment across different economic sectors and increased capacity to save due to strong economic growth of the country Ejigu (2013).

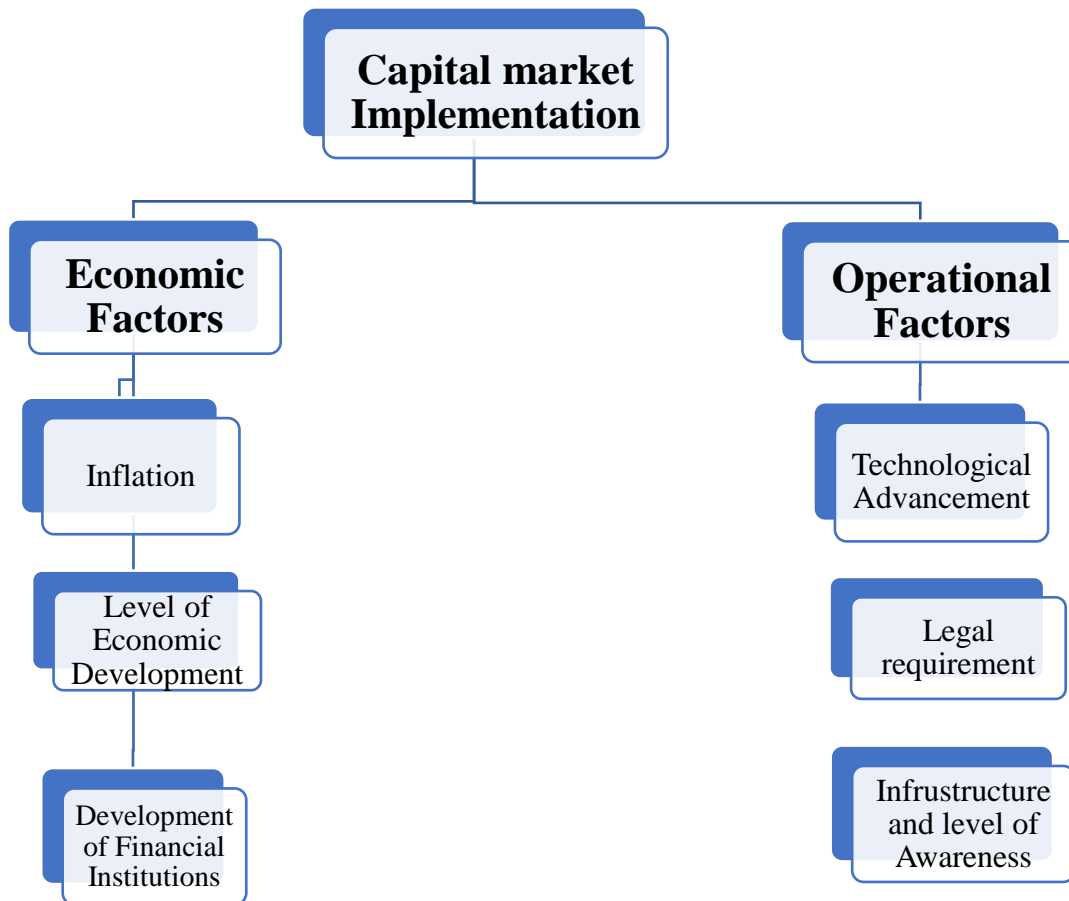
Mulunesh (2019), noted that the existence of inadequate laws and regulations, insufficient technological infrastructure, and low level of public awareness as a challenge of establishing a stock market in Ethiopia. The study also indicates the actions which needs to be implemented by government bodies like; developing formal and standardized financial reporting system and privatization of government owned businesses. On the other hand the current positive efforts and indicators which are viable for the development of capital market includes; economic growth of the country, the agenda of poverty reduction, privatization effort and unexploited resources.

Araya A & Tadewos H, (2020), explained suggestions and recommendations based on the analysis conducted on the challenges for the development of capital market in Ethiopia and presented as capital market development should be the center for country's economy. Therefore, understanding the current government initiatives and other economic developments that can contribute to the development of the capital market in Ethiopia must be the core issue and this may show research gaps for the current situation of capital market development and development.

In the process of analyzing and reviewing the related studies conducted on capital market development in Ethiopia, most of the studies rely on the theory and history of the country's

economic system and level of economic development. For this study, the major focus will be given to deeply describing and relating the current economic situation, with legal and procedural requirements in relation to the NBE directive for the development of the capital market in Ethiopia. In addition to this the study will focus and relate the current government initiatives in the financial market industry and privatization of different government-owned business sectors to support and encourage investors to invest in diversified areas of operations.

2.4. Conceptual Framework for the Challenges Affecting the Development of Capital Market



Source: Researcher's formulation based on the literature review, 2025

The conceptual framework of the study deals with two major theoretical factors, Economic and operational. Economic factors for the development of capital market include the level of a country's inflation, level of economic development and development of financial institutions. The other major factors for the development of the financial market include legal requirements, technological advancement, infrastructure, and level of awareness in the area of capital market. Hamilton (2007), most Ethiopian companies are family or otherwise closely owned, and although some are substantial businesses, most are small. Accordingly, most companies are Private Limited Companies. There are very few widely held companies. The bulk of Ethiopia's largest companies are owned or controlled by State bodies or political parties. In general, the

overview of the literature gives different perspectives to investigate the issue of capital market development in Ethiopia for the current changing environment and economic growth. Even though the study will focus on the challenges of capital market development , providing an updated overview of the county's economy in the process of accepting capital market and privatization of government-owned companies also be described in detail.

CHAPTER THREE

3. RESEARCH METHOD AND METHODOLOGY

3.1. Research Design and Approach

This study adopts the use of a qualitative and quantitative research methodology with a descriptive research design. This descriptive research has the aim of getting detailed information to assess factors affecting the development of the capital market in Ethiopia. A descriptive study is concerned with finding out what, where, and how of a phenomenon. The researcher selects descriptive research design because it enables the researcher to describe the findings of the research, and it allows the findings to provide an understanding of the larger population with observable descriptions of the issue. Descriptive studies are more formalized and typically structured with investigative questions.

In this study the main research objective was to describe the major challenges for the efficient operation of capital market and the researcher uses at most effort to collect accurate and non biased data from the study population. In order to collect accurate data structured questionnaire with were designed as the main data collection method which enables the researcher to get deep description of the concept and by doing this major findings of the study was easily presented. Generally, the study uses a both qualitative and quantitative research approach, and the analysis is also supported by theory and empirical data collected from the research respondents and published and unpublished secondary sources to effectively assess the major factors affecting the process of capital market development in Ethiopia through the understated techniques.

3.2. Population and Sampling Technique

The study's target population includes national bank management and supervisory staff, the Ministry of Finance and Economic Commission, and selected populations from banks, insurance companies and cooperatives. For the study, a +/-5 confidence interval or margin of error and 95% confidence level is the expected likelihood of the responses collected by the stated data collection methods.

To select effective sampling technique first the researcher have to decide the appropriate sample size and the study tried to give a prominent level of accuracy and reliability. Therefore, the study estimated the size of the population under study as; from National bank staff 25, Ministry of

Finance and Economic Commission 20 Commercial banks board of directors 15, Commercial bank staff s 30, Insurance companies 30 Investors and other professionals 35, audit firms 20. The total number of populations for the study will be 175 for the questionnaire and interview applied in the data collection process. However, due to lack of time from the respondents and low level of confidence for the data collected from respondents by email, the analysis of interviewed part were not included in data analysis and presentation part.

As indicated in the research population, the data were expected to be collected from different financial and non financial institutions and the total population size from those institutions is not defined or unknown. Therefore in order to give the research respondents equal chance of selection probability sampling (stratified) is found to be the best fit. Stratified sampling is where the population is divided into strata (or subgroups) and a random sample is taken from each subgroup. Subgroups might be based on company size, gender, or occupation. Stratified sampling is often used where there is much variation within a population. Its purpose is to ensure that every stratum is adequately represented (Ackoff, 1953). Finally, the study;s sampling techniques that were applied in the data collection process were stratified sampling techniques with a random sample taken from each group, since the population is divided into different organizational and professional groups.

3.3. Types of Data and Data Sources

For the accomplishment of this research, both primary and secondary data were collected. Primary data were collected from management staff, the board of directors, government officials of the above-selected sectors, and senior staff of selected audit companies. The primary data were obtained from the targeted population using a questionnaire and helps the researcher understand the level of factors affecting the capital market's development . The researcher also conducted email based interview data collections with managers and some other professionals. In addition, secondary data were also collected from a review of National bank directives and proclamations, quarterly and annual reports financial institutions, and other published materials related to the study area.

3.4. Methods of Data Collection

For this research, structured questionnaires were used as data collection technique from the respondents. Structured questionnaire is used as the data collection technique, having a series of

predetermined questions that all respondents answer in the same order. Questionnaire was applied to collect data from management staff, government officials, and other target populations. The reliability of the respondents was measured by giving the same questionnaire to the same group of respondents. In addition to this, the study also collects secondary data from annual reports of financial institutions, the proclamation of the National Bank of Ethiopia, published and unpublished studies, and audit reports in observation, review, and analysis of those documents for the accomplishment of the study.

3.5. Methods of Data Analysis

The study focuses on the use of descriptive data analysis methods to analyze and assess the major factors to get a clear understanding and common ground for the study's conclusion and recommendations. The study uses percentages as quantitative and qualitative description to analyze the responses of the respondents because it is a particularly useful method of expressing the relative frequency of survey responses and it is one of the simple forms of analysis, which makes it very easy for anyone to understand the outcome of the research, and after analyzing the responses the researcher present each result in the form of tables indicating the total distribution and percentage value to provide comprehensive listing and discussions of the assessment of factors affecting the development of capital market in Ethiopia. Finally, the outcome of the study is presented on written material and detailed oral presentation.

3.6. Level of validity and reliability

The accuracy and consistency of reliability measurement tools refers to equal values. Reliability measures the researches level of consistency, precision, repeatability and trustworthiness to reduce bias and errors. Valid measurements from the research data collected into credible findings that can be used as future research works. In this study, the observed and collected data based on the sample gives true measure to have reputable results for other studies in similar situations (Chakrabartty, 2013).

In the case of validity it is defined as the extent to which an instrument measures what it asserts to measure Blumberg et al., 2005. The validity of different research instrument assesses the extent to which the instrument measures what it is designed to measure (Robson, 2011). Moreover, validity is the degree to which the results are truthful. Therefore, it requires a research instrument (questionnaire) to correctly measure the concepts under the study (Pallant 2011). As

stated in the above data collection method, the study can give an important level of emphasis on its validity based on the standardized research methods at each level of the research process and research objective attainments.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

This chapter presents the data analysis, results, and discussion of the study depending on the collected data. As discussed in the preceding chapters, this study aimed at exploring the challenges for the development capital market in Ethiopia. Data were collected through questionnaires from the respondents and were carefully analyzed by using the descriptive method of analysis. The analysis process was supported by a percentage presentation in comparison with theoretical and empirical evidence to show the frequency of the response rate and distribution from the total population.

4.1. Response Rate

Questionnaires were distributed to different organizations and positions selected based on the sample for the accurate and reliable source of information for the research area. Among the 175 questionnaires distributed 150 of the total questionnaires were filled out properly and returned in person and some of them also were collected by email considering all the possible drawbacks or limitations. Possible checking mechanisms were applied for those who attached their response through email like phone call confirmation about their overall overview and other comments, supporting their questionnaire with some selected online interview questions. The general summary of respondent's response rate for each of the sampled target populations is summarized as follows:

Table 1: A response rate of the research

Sampling Distribution by Organization	Total Sample Size	Response Collected	Response Rate
National bank staffs	25	20	80.00
Commercial banks board of directors	15	10	66.67
Insurance companies	30	26	86.67
Ministry of finance and economic commission	20	17	85.00
Commercial bank staffs	30	28	93.33
Audit firms	20	17	85.00
Investors and other professionals	35	31	88.57
Total	175	150	85.14

Source: - Research Questionary result, 2025

Of the total 175 questionnaires distributed to the selected respondents 150 of the total questionnaires were filled as said above. Therefore, this shows that the response rate (RR) for this research was 85.14% which is suitable to proceed and conclude about the research topic. Accordingly, analysis and presentation were conducted as follows. The questionnaires were physically distributed to 175 employees. For this study, different government offices and business sectors were the major focus areas, and the above table shows how main stakeholders and responsible bodies of capital marketing were involved. Generally, to be inclusive and make the collected data more descriptive about the concept of the capital market, most of the informants were selected based on their level of contribution to the effective development of the capital market in Ethiopia.

Development of the capital market in Ethiopia will be effective for lenders and creditors, as we all know the trends of selling shares to larger groups and raising enormous amounts of money in the banking and insurance sectors. In this study, the data collected from those listed stakeholders for capital market development will give insights into the challenges and opportunities we have, in addition to those fake or fictitious corporate companies whose advertisements and strategic plans confuse different people investing in unprotected companies that do not meet the requirements of being a corporate company in the country.

Generally, this study tries to review different secondary data sources to support and analyze the data collected from respondents, since most of them were directly or indirectly aware of the concept of the capital market, except for some investors and professionals coming from non-financial institutions.

4.2. Informants' General information

The first part of the questionnaire was intentionally designed to extract the general information of the respondents such as Sex, age, educational level, and work experiences the respondents and their distributions followed by the interpretations are summarized as follows.

Table 2: General information of informants

(A) Sex distribution		Frequency	Percent	Valid percent
	Female	65.00	0.43	0.43
	Male	85.00	0.57	0.57
	Total	150.00	100%	100%
(B) Age distribution				
	Below 30 years	55.00	0.37	0.37
	31-40 years	62.00	0.41	0.41
	41-50 years	21.00	0.14	0.14
	Above 50years	12.00	0.08	0.08
	Total	150.00	100%	100%
(C) Educational Qualification				
	Diploma holder	17.00	0.11	0.11
	Degree holder	96.00	0.64	0.64
	Master's and above	35.00	0.23	0.23
	Above	2.00	0.01	0.01
	Total	150.00	100%	100%
(D) Work experience				
	Below one year	10.00	0.07	0.07
	1-5 years	45.00	0.30	0.30

5-10 years	60.00	0.40	0.40
10-15 years	25.00	0.17	0.17
16 and above years	10.00	0.07	0.07
Total	150.00	100%	100%

Source: - Research Questionary result, 2025

The gender distribution of the respondents was seen in Table 2 of item (a) to be 57 % (85) males while 43% (65) of them were females. The distribution shows that the number of Male and Female respondents were almost proportionate.

From Table 2 item (b), about 37% (55) of the 150 respondents age were below 30 years, 41% (62) of them were between the ages of 31-40 years, 14% (21) of them at the age group of 41-50 years and 8% (12) of them are above the age group of 50 years. This shows that the distribution of respondents for the study addresses different age groups, and this helps the researcher to get comparable information about the development of the capital market about the current situation and previous experience and understanding of the population.

The concept of capital market development in Ethiopia is still in progress from time to time and collecting data from respondents often depends on the educational background of the individuals in charge of different sectors for their contribution in the development process. According to the analysis for educational level, from Table 2 item (c) above, 11% (17) of them were Diploma holders, 64% (96) of them were first degree holders, 23% (35) of them were postgraduates (master's degree holders), while 1% (2) of them were PhD holders. From this, it is seen that most of the respondents held an educational level of first and second degree and were familiar with the concept of capital market which in turn indicates that the respondents had enough knowledge background to respond to the study subject area.

Work experiences of the respondents in the different financial sectors having access to read and search for the concept of capital market development and application in financial sectors were analyzed and observed to be distributed in Table 2 item (d) as 11% (17) below one year, 30 % (45) between 1-5 years, 40% (60) between 5-10 years, 17 % (25) of them between 10-15 years of experience in the area, while 7% (10) of them between were above 16 years of experience in the area of financial institutions and other related responsible areas of different sectors. The above data showed that majority of the respondents had between 1 to 10 years of work experience in

the financial institution sector which in turn points that they are quite experienced in the industry, and it helps to explore their strengths and identify the gap in the development of capital market in Ethiopia based on their experience and responsibility in the industry.

4.3. Economic Factors for the Development of Capital Market

Table 3: *Economic Factor for capital market development*

No	Factors affecting capital market development	Strongly Disagree		Disagree		Uncertain		Agree		Strongly Agree		Total	
		Frcy	%tag	Frcy	%tag	Frcy	%tag	Frcy	%tag	Frcy	%tag	Frcy	%tag
1	The current economic status of Ethiopia can manage the development of a capital market	0	0%	10	7%	18	12%	97	65%	25	17%	150	100%
2	The GDP of the country will determine the capital market in Ethiopia	0	0%	0	0%	5	3%	79	53%	66	44%	150	100%
3	All Government-owned organizations must be privatized for the development of the capital market in Ethiopia	0	0%	39	26%	31	21%	52	35%	28	19%	150	100%
4	The development of capital market affects production and economic efficiency in the long run	42	28%	71	47%	30	20%	7	5%	0	0%	150	100%
5	The existing capital stock profitability will decline after the development of capital market in Ethiopia	12	8%	37	25%	43	29%	37	25%	21	14%	150	100%
6	Privatization of government-owned businesses will contribute to the effectiveness of the capital market in Ethiopia	0	0%	10	7%	7	5%	90	60%	43	29%	150	100%
7	The current privatization process of telecom service will provide efficient ground for capital market development in	27	18%	57	38%	26	17%	31	21%	9	6%	150	100%

	Ethiopia												
8	Capital market development can support the development of countries' financial and non-financial system	0	0%	0	0%	3	2%	109	73%	38	25%	150	100%
9	Capital market development can contribute to the efficient performance of primary market	30	20%	57	38%	24	16%	33	22%	6	4%	150	100%
10	Macro and micro-economic development of the country will have a direct relation with capital market development	0	0%	11	7%	7	5%	67	45%	65	43%	150	100%

Source: - Research Questionary result, 2025

As indicated in Table 3, the major economic factors for the development of capital markets are the level of the country's GDP and growth rate. Macroeconomic stability is also a significant factor in stock market development in the context of Ethiopian capital market development . With higher macroeconomic stability, it is expected that more firms and investors can take part in the stock market. Therefore, the researcher assumed that countries with a stable macroeconomic environment should experience stronger developments in their capital markets and interactions with other similar countries operating in the system.

Besides the current development of financial institutions and the institutionalization of the capital market system in Ethiopia, the effects of economic stability and privatization process will be the major issue that needs effective participation of government and other stakeholders. In the context of the capital market development process in Ethiopia, the existing source of capital for different corporate companies will get additional alternative systems and fund-raising mechanisms.

The team, which was in the formation stage and is named "Ethiopian Capital Market Authority", currently works with NBE for the development of policies and procedures and the last version for the development of the capital market in Ethiopia and currently the ECMA is moving forward with some interested companies taking the lead to participate in the market. According to the responses collected from National Bank of Ethiopia employees and the capital market development team, financial institutions like banks, insurance, and microfinance institutions will be efficient in mobilizing enough capital after the development of the capital market in Ethiopia.

Therefore, in addition to the existing source of fund mobilization mechanisms, the new “Ethiopian capital market authority” proposed the entrance of investment banks to the system and support the market by focusing only on investment-related activities such as providing financial advice to different business sectors and helping companies raise their capital.

4.3.1. Economic Status and GDP of Ethiopia

According to the NBE report, real GDP growth fell to 5.3% in 2022 from 5.6% in 2021 but remained above East Africa’s average (4.7% in 2021 and 4.4% in 2022). Supply-side drivers of growth were industry and services, and demand-side drivers were private consumption and investment. Inflation rose to 34% in 2022 from 26.6% in 2021. Both growth and inflation were adversely impacted by internal conflict, drought, and the effects of Russia’s invasion of Ukraine on commodity prices fluctuations especially on consumable goods.

The current economic status of Ethiopia is characterized by the existence of inflation, depreciation of birr over different critical hard currencies like USD, EUR and British Pound, a high level of unemployment rate, famine in various parts of the country, and political instability. These and other factors may affect the country’s economy and development of financial stability in various forms. Having an unstable economic structure and GDP may result and affect poor development and progress in a capital market system. As indicated in the data collected and presented above, majority of the respondents agree on the factors and challenges for the development of the capital market. Therefore, considering the current economic status and GDP level of Ethiopia, the development of the capital market will take additional periods to operate the market efficiently address the capital market transaction needs of the people and support the development of the country’s economy besides its development process.

Generally, the current economic status of Ethiopia will allow the development of the capital market but, its success, liquidity, and efficiency of the market will face challenges because of the above listed problems as mentioned by the research respondents.

4.3.2. Privatization of Government-Owned Organizations

According to the data presented in Table 3, the process of privatization in Ethiopia can contribute to the efficient development and operation of the capital market except the current efficiency level of privatized business sectors contributes to the development of the capital market. For example, FDRE currently focuses on the privatization of different government-owned businesses such as Ethio Telecom, Ethiopian Airlines, and other giant sugar production companies for international and national organizations. As indicated in the public advertisement of the partial privatization of Ethio telecom in Feb 2023 MoF still wants to attract other foreign telecom companies to sell shares of 45 percent of the telecom service of the country, MoF (2023).

The independence and freedom of business operation in the telecom sector and also its efficiency in operating at a high level of operation is still not enough and can't manage capital market development with its existing regulations and restrictions. Therefore, even if the process of privatization of government-owned businesses can contribute to the effectiveness of capital market development in Ethiopia, the regulations and level of technological advancement still hinder them from managing and operating in such a massive financial market system in the country.

The process privatization of giant government owned businesses was started in 1994 through the authority called Ethiopian Privatization Authority (EPA) and later the name changed into Privatization and Public Enterprises Supervisory Authority (PPSE). In 2004 the power and duties of this privatization processes was transferred to the Privatization Board by proclamation No.412/2004. asset sale method was used as a modality for competitive bidding and majority of small retail trade outlets, small hotels, restaurants, manufacturing, and mining enterprises are privatized via auction through competitive tender method Deborah H & Mesfin T, (2016). Analyzing the actual viewpoint of the research respondents' opinion and results indicated by authors conducting research in different African countries, the development and efficiency of government-owned companies can contribute and play a great role in the capital market system if and only if the poor performance of the public sector, massive corruption, and poor economic performances can be corrected with effective measures (CFA 2019).

As per the data collected from NBE reports and data collected from respondents, the concept of privatization was on its way, even though the process still needs commitment from the

government to be effective like previously that were proposed for privatization and disregarded as secondary focus area for the country's economic development, such as Ethiopian Crown Cork and Can Manufacturing Share Company, National Tobacco Enterprise Share Company, Bahir Dar Textile Share Company, and Kombolcha Textile Share Company. Generally, considering the current privatization initiatives and directions taken by the government and the existing companies that are already under the control of the private sector's control will contribute to the effective development of the capital market in Ethiopia.

Primary Market and Economic Development

As compared with other factors for the development of capital market development in Ethiopia, the level of economic development is the major factor and needs the participation of different business sectors. The country's primary market operation cannot manage the economy's needs in terms of collecting funds and accessibility of the financial market for all. However, as indicated in the data analysis part of this research the development of the capital market will not affect the growth and development of the primary market, it will support and create efficient ground for the country's economy at large.

The current capital market development in different African countries still focuses on issuing government bonds and other similar sources of funds to support their economy. According to CFA 2019, in Africa, the establishment of capital market was dated back to 1861 but still the market serves for 1,400 listed companies with an estimated value of \$41.14 billion. Currently the involvement of fundraising activity by African Development Bank (AfDB) and the Trade and Development Bank, continue to borrow in domestic currencies from local capital markets, which demonstrates the growth and capacity of these exchanges.

In contrary to the existing theoretical and empirical literature review, the data collected from different financial and non-financial institutions, the development of the capital market in Ethiopia shows a negative effect on the efficiency of the primary market. From the total respondents more than 75% of them rejected the importance of capital market development for the efficiency of primary market operations.

4.3.3. Production and Economic Efficiency of Financial and Non-financial Systems

The above table of data analysis based on the data collected from different financial sectors indicated that the development of a capital market in Ethiopia will not affect the production and economic efficiency of the country rather it will help and contribute to creating an easy collection of funds from the local market which reduces the cost of the interest rate paid for external borrowing from different financial institutions like banks micro finance institutions and other informal sector source of capital.

From the total response rate collected, more than 75% of them support the theoretical argument that the development of capital market will not be a threat to production and economic efficiency rather it will provide an alternative source of capital for effective production and economic growth in the country. The data presented in the above table, supports the effectiveness and efficiency of financial and non-financial sectors to after the development of capital market in Ethiopia. Generally, the source of funds and operational cost of different organizations like financial institutions, real estate companies and other share companies will depend on the development of capital market in the coming years.

Table 4: The effect of inflation on capital market development

No	Factors affecting capital market development	Strongly Disagree		Disagree		Uncertain		Agree		Strongly Agree		Total	
		Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage
1	Inflation rate will be a major factor in capital market development and operation	0	0%	17	11%	23	15%	85	57%	25	17%	150	100%
2	Sound economic policies of inflation control, and stable foreign exchange management will be the main factors for capital market development in Ethiopia	0	0%	0	0%	29	19%	79	53%	42	28%	150	100%
3	Capital market development is more significant for advanced economies than emerging ones like Ethiopia	22	15%	68	45%	36	24%	18	12%	6	4%	150	100%
4	Foreign exchange rate fluctuation will be a challenge for the capital market in Ethiopia	0.00	0%	45.00	30%	8.00	5%	54.00	36%	43.00	29%	150	100%
5	development of capital market will minimize the cost of access to	0	0%	2	1%	5	3%	97	65%	46	31%	150	100%

	financial information and provide multiple investment channels for investors												
6	Capital market needs the involvement of investors, government, and individuals	0	0%	2	1%	9	6%	91	61%	48	32%	150	100%
7	Excessive cost of investment in the primary market will be minimized after the development of capital market in Ethiopia	0	0%	0	0%	2	1%	105	70%	43	29%	150	100%

Source: - Research Questionary result, 2025

4.3.4. Inflation and Capital Market development

As per the data reviewed from NBE report, the major challenges described was inflation, and currency devaluation over different foreign currencies, unemployment, and poverty. These factors may affect either the indirect or direct economic stability of the country. For instance, the inflation rate in Ethiopia was recorded at 20.35 percent in July of 2020 and averaged 26.79 percent in 2021 on average in its average understanding the country's inflation reached an all-time high of 64.20 percent in July of 2008 and a record low of -4.10 percent in September of 2009. The currency depreciation over the dollar also affects the macro-economic stability of the country which leads to inflation. Sustainable macro-economic stability may accelerate the growth and performance of the stock exchange by motivating investors to invest with positive expectation and high level of return in the short run NBE Report (2022).

According to the data collected from the research respondents, more than 70% of them agree and support the influence of inflation rate in the country which is still regarded as the major factor for the capital market development process in Ethiopia. As stated in the above report, inflation is one of the factors for the instability of economic growth and this effect directly applies and affects the development of the capital market in Ethiopia. Considering this, the economic policies of inflation control and stable foreign exchange management will determine the effective operation and development of capital market in the country. Besides this, some respondents not more than 25% of the total research respondents describe the level of inflation as a secondary factor in the process of capital market development process.

To sum up the effect of inflation on the development of capital market in Ethiopia, the current growing inflation rate and a continuing devaluation of the country's currency will affect the

economy and directly linked with capital market development process. Unless the government takes effective measures to control inflation, the current progress and establishment of independent legal authority will no longer be practical to operate and be involved in the market by breaking the customary issuing of shares and collecting funds from individuals and companies without direct involvement and control by third parties.

4.3.5. Level of Economic Development and Capital Market

From the respondent's point of view, the development of capital market is advantageous for countries like Ethiopia whose economies are under the process of development rather than developed ones. It is highly likely that growing inflation pressurizes interest rates upwards, a situation which may result in investors moving from the equities market to the bond market to benefit from higher returns Izedonmi and Abdullahi 2001. As per the data collected from the research respondents, the relationship between capital market and foreign exchange price fluctuation shows both positive and negative even if majority of them support that foreign exchange price fluctuation affects the development of capital market. In countries like Ethiopia the effect of foreign exchange rates will determine local market stability and affect the country's macro economic development and this effect will also extend to the stock market valuation.

However, different studies found that changes in real exchange rate and nominal exchange rates are highly correlated, and no significant correlation exists between relative prices and nominal exchange rate. Co-integration and Granger Causality test was performed by Muhammad and Rasheed in 2002 in four Asian countries for the period between 1994-2000 and found out that, both variables which is real exchange rate and nominal exchange rate are independent of each other in Asia. The other study conducted by Seri et.al, (2015), found that there is no relationship between the exchange rate and stock price in Pakistan from January 2004 to December 2009 may be due to multiple reasons.

The research finding also supports the importance of capital market development in relation to access to funds and minimization of the cost of capital. As indicated by the above table, majority of the respondents agreed that the involvement of individuals, investors and government is essential and helps the effectiveness of the market in terms of competition and variety of financial market operations within the market to attract different institutions.

4.3.6. Integration of Primary and Capital Market in Ethiopia

Based on the data collected from the research target populations, more than 95% of the respondents agreed that the cost of investment in the primary market will be minimized after the development of capital market in Ethiopia. Therefore, the integration of capital market and primary market will support both participants in the system if the Ethiopian capital market authority effectively implements based on the directives. Furthermore, capital market development allows financial securities easily found and at any time when the fund is needed and also surplus fund is available to invest without looking companies and other institutions to manage the market.

Primary market is a market where security creations and initial public offerings are conducted and expanded to the public for the subscription and the operation is managed by financial institutions and brokers to connect those who have surplus funds (investors) to those who need the funds (debtors). In the other case capital market uses stock market to trade financial securities and investors trade among themselves. In capital market market transaction, existing shares, debentures, bonds, options, commercial papers, and treasury bills of the corporate are traded among different investors (Rose, 2001).

Therefore, the development of a capital market in Ethiopia will help investors and creditors to minimize cost of investment in primary market operations and transactions. After the establishment of a secondary market in Ethiopia, the existing primary market with government and private sectors will support each other since the current operation only goes to direct purchases from the issuer and this limits the accessibility of funds any time someone wants to liquidate and move to others based on their interest and it will also minimize the cost of capital for investment.

Table 5: *Development of Financial Institutions and Capital Market*

No	Factors affecting capital market development	Strongly Disagree		Disagree		Uncertain		Agree		Strongly Agree		Total	
		Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage
1	The current status of financial institution development in Ethiopia can let it to operate in the capital market with full potential	29	19%	53	35%	22	15%	28	19%	18	12%	150	100%
2	Technological advancement of financial institutions will be the challenge for the development of capital market in Ethiopia	0	0%	4	3%	46	31%	65	43%	35	23%	150	100%
3	Financial institutions will take the highest level of investment in terms of transferring funds from lenders to that of spenders/investors/	0	0%	0	0%	11	7%	101	67%	38	25%	150	100%
4	Capital market will provide liquidity for owners of different financial assets	1	1%	1	1%	28	19%	90	60%	30	20%	150	100%
5	Capital market development will provide employment opportunities in the finance sector	1	1%	16	11%	0	0%	97	65%	36	24%	150	100%
6	Capital market development will benefit for the efficient operation of financial institutions in Ethiopia	7	5%	43	29%	19	13%	45	30%	36	24%	150	100%
7	development of capital market ensures liquidity of financial institutions and determines the price of securities	13	9%	41	27%	12	8%	49	33%	35	23%	150	100%

Source: - Research Questionary result, 2025

4.3.7. Technological Advancement of Financial Institutions in Ethiopia

According to Asrat, (2003), in countries like Ethiopia, bank loans are the most important source of capital, but are limited or determined by the number of deposits banks can mobilize with higher competition from the existing growing number of private banks. As a result, banks tend to

be very conservative in their lending policies and this practice highly affects the participation of private sector in multi dimensional business sectors due to low level of willingness from the banks loan provision status. Even though private banks operate under their own board of directors and company regulations, their operational and focus areas are ruled by government policies and procedures especially in developing countries. This leads to inefficient resource allocation and widespread loan delinquencies. The prevalence of these problems reduces the level of private investments, productivity of capital, and the volume of savings Asrat, (2003).

Currently, the development of financial sector in Ethiopia is getting better in terms of capacity and technological advancements as compared to the past years and this improvement still carries the government's impositions of different directives and obligations without considering institutional development and contribution to the country's economy. From the respondent's point of view, the current status of financial institutions and their technological advancement level will not allow them to participate and play a significant role in coming capital market operations.

Majority of the respondents, which is more than 65%, believed that even though the increase in the number of commercial banks, which is currently more than 30, both government and private banks and insurance companies, Ethiopian financial institutions are still working under conventional and day-to-day transaction-based operations rather than focusing on capital maximization through investment and provision of technologically advanced services to gain remarkable development and support the country's economy. Therefore, considering the data collected from the respondents, the technological advancement of financial institutions in Ethiopia will not absorb and manage the operation of capital market.

4.3.8. Capital Market and Level of Liquidity in Financial Institutions

According to Rose Levine (1996), a well-developed financial sector and a liquid capital market experience have a faster rate of capital accumulation and greater productivity gains. This positive relationship shows that as liquidity increases, firms gain increased assurance that they will be able to exit from long-term investment. The response rate collected from the research respondents revealed that financial institutions will receive help from the development of the capital market in Ethiopia by actively taking part in investment and credit provisions for the market participants. Almost all the respondents agreed that the development of a capital market

will directly influence the development and liquidity of financial institutions in Ethiopian, and this will also create job opportunities for those currently limited with bank and insurance companies without any alternative capacity building and exposure for the advancement in the financial sector.

Additionally, efficient capital market will allow diversification of portfolios, as investors will have access to a wider range of financial instruments. Overall, capital market development will provide investors and financial institutions with increased options, enhanced efficiency, and greater transparency, which will contribute to the growth of the economy. To conclude, the respondents understanding of the effect of capital market for investors in terms of liquidity and easy access to source of capital every time needed. By allowing easy conversion of securities into cash, financial markets offer much-needed flexibility to investors, especially during times of financial emergencies. Moreover, investors need not wait for the maturity of their investments but instead can sell the securities whenever they deem necessary, therefore providing them with better control over their financial investments (Roses Levine 1996).

4.3.9. Capital Market Development vs Development of Financial Institutions

The development of financial institutions in Ethiopia is reported to be increasing and has reached more than 30 commercial banks, 17 insurance companies, and around 48 microfinance institutions. The development of all these banks, insurance, and microfinance institutions- is based on fund mobilization from the larger population without the existence of a capital market system in the country. Most of the board of directors and high-level officials of banks and insurance companies argued that the emergence of a capital market system will highly benefit the existing corporate companies to get additional sources of capital from the system. NBE Annual Report (2023).

Different Literature reveals three types of interactions between financial institutions and markets: competitive, complementary, and co-evolving. A competitive or substitute relationship argued that the development of one component at the expense of another. A complementary relationship suggests development of one financial component opens more opportunities to gain experience and prosper for another financial institution. The complementary of capital market development and the stock market through improved stock price informativeness, which allows banks to learn

more about the borrowing firm, reducing the adverse selection costs associated with syndication Brogaard, N. and X, (2019).

Nyasha and Odhiambo, (2017) identified mixed results by analyzing the interplay between banks and capital markets in different economic contexts. Based on their research findings, two out of three countries reveal complementary inter-dependency. When the complementary inter-dependency between bank and market carries on for an extended period the relationship can be labeled as co-evolving.

The data collected and analyzed above shows the relationship between capital market development and the development of financial institutions and agrees that their relationship is categorized as co-evolving which combines the concept of competitive and complementary interaction. Furthermore, Ethiopian banks and insurance companies mainly focused on advertisement and development of public awareness for their source of capital starting from their establishment. From this data analysis we can understand that the development of capital market system in Ethiopia will support them to get easy access to capital and link their company to the public at large. However, some of the respondents also depict the influence of financial institutions on the development of the capital market in Ethiopia as a threat because of the hidden benefits generated from selling shares to the public without any direct control of the independent authority.

Even though the existing development of financial institutions was based on their effort in fund mobilizations and administration, the development of a capital market in Ethiopia will help investors and the larger group by controlling the operation and fund management of those financial institutions based on the stated laws and regulations of the country.

4.4. Operational Factors for the Development of Secondary Data

Table 6: *Legal requirement and capital market development*

No	Factors affecting capital market development	Strongly Disagree		Disagree		Uncertain		Agree		Strongly Agree		Total	
		Frcy	%tag	Frcy	%tag	Frcy	%tag	Frcy	%tag	Frcy	%tag	Frcy	%tag
1	International law of finance will affect the country's financial system after the development of capital market in Ethiopia	22	15%	6	4%	24	16%	43	29%	55	37%	150	100%
2	An Independent regulatory agency must be established for the effective development of capital market	0	0%	7	5%	14	9%	72	48%	57	38%	150	100%
3	Legal registration of companies operating in Ethiopia should be registered by the agency to participate in stock market operations	0	0%	2	1%	12	8%	57	38%	79	53%	150	100%
4	Effective public debt management is the core element and requirement for the development of capital market in Ethiopia	0	0%	7	5%	18	12%	75	50%	50	33%	150	100%
5	Legal requirements for the development of capital market will be a challenge to initiate the market within a short period of time	0	0%	0	0%	12	8%	78	52%	60	40%	150	100%
6	The new directive of NBE about the development of capital market in Ethiopia is considered as a milestone for the process	0	0%	1	1%	4	3%	89	59%	56	37%	150	100%
7	The legal aspect of transferring and capital allocation will be a challenge for capital market development	0	0%	0	0%	16	11%	81	54%	53	35%	150	100%

Source: - Research Questionary result, 2025

4.4.1. International Law of Finance and Independent Regulatory Agency

From the data presented in the above table, the response rate collected from the research respondents was not in favor of the theoretical concept of the effect of international financial laws on the existing law of the country after the development of the capital market in Ethiopia. The response rate was collected from the financial and non-financial sector professionals, and almost all of them agreed to the establishment of an independent regulatory body to manage the market without any interference from the government. Therefore, the development of capital market in Ethiopia will bring the introduction of new trade laws and standardized regulations to manage the existing financial system and this change will benefit financial institutions (banks, insurance, microfinance institutions) and investors at large.

Capital market development requires the establishment of an independent regulatory body and in our context, the capital market proclamation includes separate and independent units to control and manage the capital market. As stated in the proclamation, the Ethiopian Security Exchange shall be established as a share company by the government in partnership with the private sector including foreign investors. This system also permits or facilitates the registration, clearing, and settlement of securities transactions or dealing in securities without the physical delivery of certificates (NBE Draft Proclamation 2020).

In relation to the registration of companies for capital market operation and effective public debt management, the data presented in the above table is clearly described as a major requirement for effective capital market development in Ethiopia. From this, we can conclude that the theoretical preconditions for the requirement of company registration and availability of effective public management are supported by the data collected from different financial sector professionals and company owners in Ethiopia. Out of the total respondents, 68% of them independent regulatory body and active development and obedience of international laws in relation to capital market development in Ethiopia is considered as a key precondition.

4.4.2. Current Status of Ethiopia for Capital Market Development

Effective capital market development in Ethiopia requires institutional improvements and efficient regulatory body to manage and operate the market more efficiently. Abay Yimer, (2011) pointed out some of the requirements as follows;

- Initial license issuance and nationality requirements should follow the directives of NB
- Overall capital adequacy, level of liquidity, financial statement valuations and risk diversification need to be managed effectively.
- Risk transfer regulations, ownership and transfer right of securities to third party need to be governed by the market authority.
- Insider dealing or unhealthy interference of intermediaries and market manipulation regulations need to be improved.
- Information asymmetry should have to be managed efficiently to treat all participants equally based on ruled and regulations.
- Fund guarantee, liquidity support, lender of last resort and state ownership regulations need to be improved.

Therefore, considering the theoretical and empirical requirements for the development of a capital market, the current status of the country in terms of legal requirement creation and effective debt management platform will challenge to the development of the market within a short period of time. Analyzing the data collected from the research respondents also agreed and supported that the challenge of legal requirement finalization and other preconditions will take time for effective inauguration and launching of capital market for the first time in the country's financial system history.

Furthermore, the capital market proclamation is also believed to be the major initiation and effective decision as stated and presented in the table above for the development of the capital market. Generally, from the theoretical and respondents' points of view, we can conclude that the establishment of capital market is the process of passing steps from time to time and with the support of different stakeholders like financial and non-financial institutions like banks, insurance, microfinance, and chamber of commerce in specific.

In this regard, more than 90% of the respondents agreed that the Ethiopian legal aspect of transferring securities and capital allocation will be a challenge for capital market development . From this we can understand that the major ground for respondents to support asset or financial security transferring and capital allocation as a major challenge for the development of the capital market was the existing practice of the financial market, even in primary market

operations, the issue of asset transferring, and capital allocation is below the expected level of development.

To conclude, the current status of capital market development in Ethiopia and the readiness of investors and public institutions, mostly financial institutions, real estate companies, and other organizations operating in Ethiopia, will participate and play a great role in the market. However, the process and procedural requirements of capital market participants for companies will have challenges in terms of financial capacity, technology, and awareness level of capital market operations.

Table 7: Development of Infrastructure and capital market

No	Factors affecting capital market development	Strongly Disagree		Disagree		Uncertain		Agree		Strongly Agree		Total	
		Frcy	%tage	Frcy	%tage	Frcy	%tag	Frcy	%tag	Frcy	%tag	Frcy	%tag
		1	The infrastructure and intellectual assets of Ethiopia will be the major factor for capital market development	0	0%	10	7%	22	15%	73	49%	45	30%
2	The role of brokers in stock market will affect the development of capital market in Ethiopia	7	5%	32	21%	15	10%	57	38%	39	26%	150	100%
3	Capital markets provide wider investment choices for savers and spread ownership in companies	0	0%	0	0%	4	3%	82	55%	64	43%	150	100%
4	Capital market development in Ethiopia will take several years to be efficiently operational	0	0%	21	14%	20	13%	51	34%	58	39%	150	100%
		7		63		61		263		206		600	

Source: - Research Questionary result, 2025

4.4.3. Level of Infrastructure and development of capital market

Most of the time the development of capital markets requires advancement in organizational and infrastructure quality level to be able to manage the operation of the market efficiently.

According to Kannan 2011, the major requirements of capital market development are categorized into four pillar models such as discussed as apex regulatory & monitoring authority, comprehensive & strong banking system, state-of-the-art communication network and sound legal system to protect investors.

From the theoretical point of view, the development of infrastructure is the major contributing factor to the development of capital markets, especially for countries demanding financial system development to support the overall GDP. For this study respondents were asked to evaluate the effect of infrastructure on the development of the capital market in Ethiopia and most of the responses collected and analyzed shows the direct effect of infrastructure level to develop capital market. Furthermore, the research respondents also agreed on the intellectual asset of the industry as a major challenge in line with the organizational and other basic requirements such as building, sound telecommunication service, institutional advancements and efficient regulatory monitoring body and efficient legal system to protect investors.

Considering the above requirements for the development of a capital market in Ethiopia, the country needs further improvement and capacity-building work with the existence of a sound legal system to protect investors and a comprehensive and strong banking system. As per the current movement and regulations of NBE the establishment of capital market authority (CIMA) is stated under Article 3(1) with its responsibility and will be accountable to the prime minister of the federal democratic republic of Ethiopia. Generally, the development of the capital market is under opening stage and still awareness creation with different groups are contentiously given NBE Annual Report, (2022).

4.4.4. Ownership Right and Capital Market

In the Ethiopian context, the existing financial system is completely operated by similar investors and organizations without considering the larger population as part of the system and owning some parts of shares from different organizations. The response rate collected from the research respondents tells us the development of a capital market will create ownership rights and be easily accessible for fund transfer from savers to lenders without the involvement of intermediaries. From the total population of the study over 60% of the respondents agreed that the role of broker will continue influencing the development and operation of capital market in

Ethiopia considering the limitations of regulations and directives implemented by the National Bank of Ethiopia.

Generally, the development of capital market in Ethiopia requires efficient infrastructure development and operational capacity to strengthen the efficiency of the financial system in fund transferring and circulations of money in the market without the involvement of major intermediaries even if the effect of brokers in the system is believed to continue like that of their influence in determining price and investment activities in the primary market and conventional business operations of Ethiopia.

The current development level of the banking industry, telecom infrastructure, and other major requirements of capital market development is questioned for being efficient and dependable to accommodate the system in its well-functioning phase. Even though, there are several factors where still accepted as a limitation to the development of capital market in Ethiopia the country started opening the capital market system under operational system. Considering the response rate from the above table, most of them positively agreed with the readiness of the country to efficiently operate capital market with the existing institutional and infrastructure advancement level of the country.

Table 8: *Level of societal awareness for capital market in Ethiopia*

No	Number of sampled respondents	Strongly Disagree		Disagree		Uncertain		Agree		Strongly Agree		Total	
		Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage	Frcy	%tage
1	Saving investment culture of the country will affect the development of capital market	0	0%	0	0%	15	10%	48	32%	87	58%	150.00	100%
2	The level of awareness about stock market in Ethiopia will be the challenge for its development	0	0%	0	0%	23	15%	73	49%	54	36%	150.00	100%
3	The level of transparency and communication between market players and regulatory agencies will contribute to effective capital market	0	0%	5	3%	22	15%	73	49%	50	33%	150.00	100%
4	Capital market development gives the poor a chance to buy stocks from profitable companies and become part-owner	0	0%	16	11%	12	8%	77	51%	45	30%	150.00	100%
5	Different companies can get access to alternative sources of capital after the development of capital market in Ethiopia	2	1%	4	3%	12	8%	55	37%	77	51%	150.00	100%
6	The traditional way of doing business in Ethiopia will be transformed after the development of capital market.	0	0%	13	9%	21	14%	48	32%	68	45%	150.00	100%
7	The existing trade law of the country will challenge capital market development	0	0%	0	0%	17	11%	77	51%	56	37%	150.00	100%
8	Investors interest of business activity will affect the development of capital market	0	0%	3	2%	20	13%	77	51%	50	33%	150.00	100%
		2		41		142		528		487		1200	

Source: - Research Questionary result, 2025

4.4.5. Level of Awareness and Investment Culture in Ethiopia

Capital market development enhances the level of national saving by creating an incentive to invest with a prominent level of return rather than getting less return in more secure or less risky investments with savings in the bank. It also provides investors with an option to diversify across

industries, thus improving their risk/return trade off. However, the level of awareness and customary investment and saving culture of the society will not be easy for effective development of the market in Ethiopia. Most of the respondents agreed that the level of awareness and traditional way of managing an organization will affect the development of capital market in the country Tessema (2003).

Capital market gives many people a chance to buy shares of listed companies and become part owners of profitable enterprises and this will help to reduce large income inequalities. The openness of investment and capital mobilization process of capital market gives a higher advantage for the larger community to control some part of the business operated in the country unlike that of the present monopolistic way of business and investment alternative. Almost all of the respondents understood and agreed to the chance to buy stock and share profit of different organizations by individual investors and become co-owners of the business.

According to the data collected from the research respondents 80% of them agreed that the level of transparency and communication between market players and regulatory agencies will contribute to effective capital market development . Therefore, issuers should provide timely and reliable disclosures about the financial health and performance of their companies to ensure that investors have access to accurate information.

In conclusion, transparency and effective communication are essential for the smooth functioning of the capital market. Market participants, including issuers, regulators, and market makers, need to take initiative-taking measures to ensure that they provide timely and reliable information to investors. Timely and reliable disclosure enhances the quality of investment decisions and engenders trust and confidence in the market. Regulators also have a critical role to play in promoting a fair and efficient market through clear rules and guidelines.

The development of capital market in Ethiopia will contribute to the change in the day-to-day business operations of companies in Ethiopia. Of the total research respondents 80% of them agreed that the existing traditional way of business operation in Ethiopia will be advanced and transformed to the new way of financial system operation after the development of capital market. Besides this as stated in the above discussion, the availability of alternative sources of capital for investors and organizations after the development of capital market in Ethiopia is

inevitable to every stakeholder and individual participating in the country's financial system and investment activities.

According to Csavas et al, 2008, one of the most fundamental impediments to capital market development is lack of confidence in debt repayment by investors due to a highly unstable macroeconomic environment and inconsistent government policies. Fiscal dominance and lack of fiscal discipline are the most common macroeconomic weaknesses hampering the development of government securities markets. Fiscal dominance is often accompanied by a lack of firm commitment to market-based financing of the public sector borrowing requirement.

The new federal democratic republic of Ethiopia capital market proclamation gives different adjustments and new regulations considering the market and this will bring a change in the existing trade law of the country. The research respondents also agreed that a new era of trade law improvements and changes will happen in Ethiopia after the country started operating capital operation system in efficient ways. Generally, the existing trade law of Ethiopia will be the major challenge for the development of capital market even though the regulation is still in progress to develop new additions and improvements in the existing trade law of the country, NBE Annual Report (2022).

The response rate collected and analyzed in this study depicts the challenge of investors' business participation culture in the development of capital market in Ethiopia. From the total population under this study, more than 80% of them agreed that the investors' business experience in the local market will be a major challenge to adapt and easily operate in the capital market system. Bearing this in mind, the independence of the regulatory body and easiness of getting funds in the market will give confidence for safe investment and a source of liquidity for different companies. Investors will benefit from the development of capital market to solve liquidity problems by selling shares to the market with the existing variety of buyers and increasing their capital for efficient operation in the sector.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

This section of the study focuses on the conclusion and recommendations based on the data presented and analyzed in chapter four of the study.

5.1. Conclusion

From the country's economic perspective, the existence of inflation, GDP level, and unstable economic structure still needs improvement for the development of capital market in Ethiopia. The current privatization process underway in Ethiopia is aimed at increasing private sector involvement and investment in key economic sectors, including telecommunications, energy, and transportation. This process is expected to enhance competition and accelerate the development of infrastructure and services.

As a direct result of this privatization drive, capital market development will be facilitated, enabling investors to purchase and trade shares in privatized companies on the stock exchange. This shift towards a more market-oriented economy through privatization is a promising step for the country in expanding access to affordable capital for businesses while also improving transparency and accountability within these previously state-operated entities. With increasing foreign investment pouring into Ethiopia despite ongoing challenges such as political instability and underdeveloped infrastructure, the timing of this initiative serves as a starting point of hope for further growth and expansion in the Ethiopian economy.

Exchange rate fluctuations affect the inflow and outflow of foreign capital, which significantly impacts the performance of domestic financial institutions and affects their ability to provide credit and financing options. In emerging economies, challenges such as trade deficits, lack of transparency in governance, and inadequate regulatory frameworks tend to magnify the risks that institutional investors face in these markets. Several factors contribute to impeding progress in developing capital markets and hence pose challenges towards financial inclusion. Nevertheless, over time several countries have implemented market reforms with policies aimed at increasing market depth and participation while reducing systemic risk through strengthened regulations created by effective supervision mechanisms.

To effectively operate capital market in Ethiopia, an independent and efficient regulatory agency is required. Such an agency would be tasked with overseeing the market and ensuring that it operates efficiently and transparently. The presence of such an agency would also provide investors with confidence in the market, which in turn could lead to increased investment. Without independent oversight, there is a risk of misconduct and unfair practices that could negatively impact investor confidence and undermine the growth of the capital market. Even though the major responsibility of the agency is monitoring the capital market, an independent regulatory agency could also establish rules and regulations that would promote fair competition and prevent insider trading or other forms of financial manipulation. Therefore, the establishment of such an agency is essential if Ethiopia hopes to build a successful capital market that can contribute significantly to economic growth and development.

Capital allocation and public debt management are critical challenges in the development process of capital market in Ethiopia. Capital market requires an efficient allocation of capital, which means that funds must be invested in projects and companies that generate the highest returns while minimizing risk. However, achieving this objective is not always simple since public debt must also be managed effectively for stability purposes. To balance the challenges of capital market and the problem of public debt management requires the involvement of government to put in place proactive measures designed to manage public borrowing with the main goal of keeping interest rates low. In Ethiopia, the limited availability of infrastructure such as technology services, internet connectivity, and favorable legislative frameworks poses significant challenges to develop an effective capital market. Furthermore, the low levels of professionalism in the financial sector have slowed down progress towards creating a robust financial environment that can foster the growth of the capital market. Building up professionalism among bankers, investors, and other stakeholders will be crucial in overcoming obstacles to create an efficient capital market in Ethiopia that benefits all participants.

The awareness level of investors and business owners plays a crucial role in the effective development of the capital market in Ethiopia. Therefore, authorities need to create awareness campaigns that educate investors, business owners and professionals in the sector about the advantages of a capital market such as improved liquidity and increased valuation. Additionally, incentives could be provided to promote greater involvement in the market as well as efforts

towards promoting transparency, investor protection, and corporate governance standards by entities participating in both primary and capital markets.

5.2. Recommendation

Based on the analysis of data collected from research respondents and review of different literature in the process of capital market development , the ambition and focus of the country to efficiently operate market within a short period of time did not consider the major requirements and initiations of different stakeholders starting from individuals to higher government officials. In order to have efficient capital market in Ethiopia the following recommendations are stated based on the research findings and theoretical source of information collected by the researcher:

- Since the level of awareness of investors and other stakeholders affects capital market development , government should take the initiative and cascade the responsibility for different financial institutions.
- Even though the current level of capital market operation in Ethiopia is still at initial level, the exiting laws and regulations, technological infrastructure, and capacity of financial and non-financial institutions, societal level of awareness, should be evaluated by external parties and financial and professional support should be provided.
- Government should take decisive measures by aligning the country's unemployment and poverty reduction policy with the establishment of capital market development .
- Government and the market operating authority should be open and free to accept financial support from different professionals and organizations whether it be local or international if the interest of the country is secured.
- Considering the advantages of capital market development in Ethiopia like enhancing liquidity, minimum cost of capital, transparent transaction and price determination based on demand and supply, the legal framework of the market should restrict the involvement of brokers and other third parties directly to the market.
- ECMA should give priority to provide training and arrange continuous workshops with different stakeholders to increase awareness level within capital market participants.

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APPENDIXES

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

Dear Respondents: -

I would like to express my deep appreciation for your generous time, honest and prompt responses.

Objective: - This questionnaire is designed to collect data about the challenges affecting the development of capital market in Ethiopia. The information that you offer me with this questionnaire will help me as primary data in my thesis study which I am conducting for a postgraduate requirement in the department of Accounting and finance, Addis Ababa University.

General Instructions

No need to write your name.

In all cases where answer options are available, please tick (√) in the appropriate box.

Confidentiality

I want to assure you that this research is only for academic purposes authorized by Addis Ababa University. No other person could access the collected data.

Email: molla.addis@gmail.com

Tel: 0923235015

Thank you very much for your time and kind cooperation!!

Addis Molla

Part I: Personal Information

1. Gender

Male Female

2. Age

Below 30 years 31 - 40 years 41 - 50 years 51 and above

3. Education level

Diploma Degree Master's Above

4. Working experience in the organization

Below one year 1-5 year/s 6-10 years 10-15 years
 16 years and above

6. Job position

Officer Supervisor Manager Director
 CEO

Part II: Questionnaires related to Challenges and prospects of capital market development .

Indicate your opinion by marking \surd or x in the corresponding appropriate box corresponding to the number against the respective questions on the following five-point scale questions that best describes your perception of the challenges of capital market development in Ethiopia.

Note: 1 = strongly disagree, 2 = disagree, 3 = uncertain, 4 = agree and 5 = strongly agree

➤ Economic Factors

No	Questionnaire/Statement	1	2	3	4	5
1	The current economic status of Ethiopia can manage the development of capital market					
2	The inflation rate will be a major factor in capital market development and operation					
3	The GDP of the country will determine the capital market in Ethiopia					
4	Capital market needs the involvement of investors, government, and individuals					
5	Foreign exchange rate fluctuation will be a challenge for capital market in Ethiopia					
6	The traditional way of doing business in Ethiopia will be transformed after the development of capital market.					
7	All Government-owned organizations must be privatized for the development of capital market in Ethiopia					
8	The status of financial institution development in Ethiopia can let them to operate in capital market with full potential					
9	Technological advancement of financial institutions will be the challenge for the development of capital market in Ethiopia					
10	The existing trade law of the country will challenge the capital market					
	The new directive of NBE about the development of capital market in					

11	Ethiopia is considered a milestone for the process					
12	The legal aspect of transferring and capital allocation will be a challenge for capital market development					
13	Investors' interest in business activity will affect the development capital market					

N o	Questionnaire/Statement	1	2	3	4	5
14	Financial institutions will take the highest level of investment in terms of transferring funds from lenders to spenders/investors/					
15	development of capital market will minimize the cost of access to financial information and provide multiple investment channels for investors					
15	Capital market will provide liquidity for owners of different financial assets					
17	The development of secondary affects production and economic efficiency in the long run					
18	The existing capital stock profitability will decline after the development of capital market in Ethiopia					
19	Capital market development is more significant for advanced economies than emerging ones like Ethiopia					
20	Sound economic policies of inflation control, stable foreign exchange management will be the main factors for capital market development in Ethiopia					

➤ **Operational Factors**

No	Questionnaire/Statement	1	2	3	4	5
21	Saving investment culture of the country will affect the development of capital market					
22	Stock market development in Ethiopia will take several years to be efficiently operational					
23	The level of awareness about stock market in Ethiopia will be the challenge for its development					
24	Infrastructure and intellectual assets of Ethiopia will be the major factors for capital market development					
25	International law of finance will affect the country's financial system after the development of capital market in Ethiopia					
26	Privatization of government-owned businesses will contribute for the effectiveness of capital market in Ethiopia					
27	The role of brokers in stock market will affect the development of capital market in Ethiopia					
28	Capital market development will provide employment opportunities in the finance sector					
29	Capital market development will benefit the efficient operation of financial institutions operation in Ethiopia					
30	The high cost of investment in primary market will be minimized after the development of capital market in Ethiopia					
31	The current privatization process of telecom service will provide efficient ground for capital market development in Ethiopia					
32	Capital market development can support the development of countries' financial and non-financial system					
33	Capital market development can contribute to the efficient performance of primary market					

No	Questionnaire/Statement	1	2	3	4	5
34	An Independent regulatory agency must be established for the effective development of capital market					
35	Legal registration of companies operating in Ethiopia should be registered by the agency to participate in stock market operations					
36	Macro and micro-economic development of the country will have direct relation with capital market development					
37	The level of transparency and communication between market players and regulatory agencies will contribute to effective capital market					
38	Capital markets provide wider investment choices for savers and spread ownership in companies					
39	development of capital market ensures liquidity of financial instruments and determines the price of securities					
40	Capital market development gives the poor a chance to buy stocks from profitable companies and become part-owner					
41	Different companies can get access to alternative sources of capital after the development of capital market in Ethiopia					
42	Effective public debt management is the core element and requirement for the development of capital market in Ethiopia					
43	Legal requirements for the development of capital market will be a challenge to initiate the market within a short period of time					