

**ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE**



**CHALLENGES AND OPPORTUNITIES OF ESTABLISHING A STOCK
MARKET IN ETHIOPIA WITH PARTICULAR REFERENCE TO THE
SELECTED BUSINESS SECTORS**

**Thesis Submitted to Addis Ababa University School of Commerce Marketing Management
Graduate Program**

**In Partial Fulfillment of the Requirements for the Degree of Masters of Arts in Marketing
Management**

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SCHOOL OF COMMERCE**

DEPARTMENT OF MARKETING MANAGEMENT

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DECLARATION BY CANDIDATE

I, the undersigned, hereby declare that this thesis entitled “**challenges and opportunities of establishing a stock market in Ethiopia with particular reference to the selected business sectors**” is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been acknowledged.

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STATEMENT OF CERTIFICATION

This is to certify that **Hayilemichale Birhanu Jano** has carried out his research work titled “**challenges and opportunities of establishing a stock market in Ethiopia with particular reference to the selected business sectors**” in partial fulfillment of the requirement for the award of Master of Arts in Marketing Management at Addis Ababa University School of Commerce. This paper is an original work of him and has not been submitted to any Diploma or Degree in any college or University.

Saleamlak Mola (Ass.Prof)

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Date

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LIST OF ACRONYMS AND ABBREVIATIONS

AA-CCASA: Addis Ababa Chamber of Commerce and Sectorial Associations

AfDB: African Development Bank

ASEA: African Stock Exchanges Association, African Securities Exchanges Association

CASE: Cairo and Alexandria Stock Exchange

CBE: commercial bank of Ethiopia

COVID 19: corona virus disease 2019

CMAC: Capital Markets Advisory Council

CMD: Capital Market Diagnostics

CMPIT: Capital market project implementation team

DBE: Development bank of Ethiopia

EASEA: East African Securities Exchanges Association

EMH: Efficient Markets Hypothesis

FDI: Foreign direct investment

FDI: Foreign direct investment

GDP: Gross Domestic Product

GTP: Growth and Transformation Plans

G-7: Group Seven Countries

ICT: Information communication technology

IFC: International Finance Corporation

IFRS: international financial reporting standards

IMF: International Monetary Fund

IPO: Initial Public Offering

IT: Information Technology

JSE: Johannesburg Securities Exchange

MFI: Micro-Finance Institutions

MOF: Ministry of Finance

NBE: National Bank of Ethiopia

OTC: Over-The-Counter

SOP: Standard operating procedures

SSA: Sub Saharan Africa

TSX: Canadian stock exchange

US: United State

UK: United Kingdom

USD: United States Dollar

WBG: World Bank Group

5G: 5th generation mobile network

ABSTRACT

Ethiopia's economy has been growing, with the exception of recent economic vibrations, requiring a stable environment for business organizations and profitability. The country need massive capital movement to realizing the potential and long-term inclusive growth. Capital market or stock market exchange is one of the strategies for raising capital. Despite the fact that the government has developed a draft capital market establishment declaration that is now being discussed, the country has to create a stock market. On the other hand, the research looked into the opportunities and problems of establishing a stock exchange in Ethiopia. Besides the works mentioned above, little has been published on Ethiopia's intention to build a stock exchange market focused on financial industries, which are good examples of well-functioning share enterprises. This paper aimed to identify challenges and opportunities of establishing a stock market in Ethiopia with particular reference to the selected business sectors. A qualitative and descriptive research design is used to achieve this objective. Primary data was gathered from Minister of finance (MOF) legal department officers, chamber of commerce experts, and legal advisers at the National Bank of Ethiopia and Secondary data was gathered via online survey, and an assessment of publications thought to be essential. The data were analyzed using the factors that influence the establishment of a stock market in Ethiopia. Insufficient laws and regulations, an unstable economic growth, a lack of corporate governance, insufficient telecom and technology infrastructure, a poor macroeconomic circumstance, a lack of accounting and auditing standards, and a low level of public awareness were identified as challenges to the establishment of a stock exchange in Ethiopia. According to the findings, detailed legal and institutional reform, financial sector liberalization, integration and constant monitoring of accounting and auditing styles, public awareness of the stock market, and overall macroeconomic stability are all necessary for a well-functioning stock market once it is established.

Key Words: Stocks, Stock Market, Initial Public Offerings, Secondary Market.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

A stock market is the market for the exchange or trading of financial instruments (Francisco, Alecsandro, 2010). Stocks, bonds, and currency trading are examples of securities. Stock markets, bond markets, and currency markets are the three types of financial markets, according to this description. When you buy a stock, you has become shareholder or a participant in the firm. If you buy a bond, is from the other hand, you now become creditor of the corporation. Stocks are purchased for two main reasons: first, to receive a portion of the company's profits. Dividends are the term for this. Second, as a consequence of the company's growth and increased earnings, the values of these securities may rise owing to increased demand. As a result, the value of the investor's stocks rises, which is referred to as a capital gain(CMA, 2019).

Asalatha, (2019) defined Stock exchanges serve as marketplaces for financial transactions such as the buying and selling of stocks or shares, that represent ownership interests in a corporation. It is not a physical place or a distinct firm to symbolize an average of stock buyers and sellers. The stock markets are also known as share markets and asset prices, in additional to this description. A stock exchange, often called a securities exchange or market, is a place where you may buy and sell stocks, bonds, and other financial instruments.

For an economy to grow, money must be transferred from less productive to more productive ventures. The stock market is one of the most important tools for corporations to raise capital. By bringing borrowers and lenders of money together at a cheap cost, the stock exchange stimulates investments by allowing idle money and savings to become productive (Hailu, 2020a).

The first stock exchanges are thought to have started in the 13th century in Belgium and Dutch cities such as Bruges, Flanders, Ghent, and Rotterdam (Oganga, 2019). However, the first formal stock exchange is the London Stock Exchange which came in to existence in 1801. The next stock exchange was the New York Stock Exchange which was formed in 1817. Other countries came up with their own stock exchanges following the footsteps of England and United States of

America. The Canadian stock exchange (TSX) is the third largest stock market in North America (Asalatha, 2019).

Ghana, Malawi, Swaziland, Uganda, and Zambia have all launched new stock exchanges. There were only five stock markets in Sub-Saharan Africa and three in North Africa before to 1989. Most African countries' domestic financial liberalization efforts have prioritized the creation of stock markets. It seems any program of financial liberalization in Africa is incomplete without the establishment and development of stock markets (Adjasi & Yartey, 2007). Most African stock markets are miniature, delicate, and have yet to become vital financial institutions in nationwide economies (Ali, 2016). Many African nations' stock markets are improving as a result of a purposeful and well-coordinated policy to modernize their financial sectors, which is itself a major component of wider economic reform initiatives aimed at encouraging huge economic activity and creating higher levels of wealth (Adjasi & Yartey, 2007).

In Ethiopia the historical roots of the stock market may be traced back to the Imperial era. In order to earn some of the 40 million francs required to build the Ethio-Djibouti railway line, Emperor Menelik II sold shares in France in 1897. Abyssinia Bank, the country's first bank, offered its shares in 1906 in Addis Ababa, New York, Paris, London, and Vienna. From 1960 until 1974, there was a boom of share firms, and the National Bank of Ethiopia traded shares via the Addis Ababa Share Dealing Group. Some of the share firms whose shares were traded publicly at that time included Addis Ababa Bank, Ethiopia abattoirs, Bottling Company of Ethiopia, Indo-Ethiopian Textiles, HVA Ethiopia, and Tendaho plantations. In the socialist revolution of 1974–1975, which destroyed the economy based on the private sector, all businesses were nationalized (Gizachew, 2019).

In addition to the above points, Ruecker insists, If Ethiopia had a stock market and individuals could invest in Ethiopian enterprises as cheaply as they can currently through private transactions, it would be the most appealing investment location in Africa. Allowing the private sector to build the capital market will result in more transparency and more capital being allocated to Ethiopia's fast-growing economy (Ruecker, 2011). This study looks into the problems and potential of developing a stock market in Ethiopia, with an emphasis on the importance of certain business sectors.

1.2. Statement of the problem

Different seminars and studies were undertaken by different scholars who emphasized on the need to establish stock market in Ethiopia such as, Ruecker, (2011), Tessema, (2003) , Chewaka, (2015), Zena, (2021) and etc. Furthermore, several researchers have carried out some research. One of the most notable study works on prospects and challenges of establishing stock market in Ethiopia that was done by (Gizachew, (2019). Chewaka, (2015) also commented on challenges and prospects of stock market development in Ethiopia with special contemplation on the legal aspects. Ali, 2016 also looked into the viability of establishing capital market in developing countries in the case of Ethiopia. Mebrahtu, (2014)Studies on the Start of the Capital market in Ethiopia, Analysis of Potential Mattresses, Constraints, and the Doubt. This study looked at the prerequisites for establishing a competitive stock market in Ethiopia, as well as the challenges and opportunities for stock market development. Using a qualitative research technique, the study also studied public awareness of the stock market in Ethiopia, as well as the importance of stock market growth for the benefit of society, consumers, and employees, as well as the development of countries.

1.3. Basic Research Questions

General Research Question

What are the challenges and opportunities of establishing a stock market in Ethiopia with particular reference to the selected business sectors?

Specific Research Questions

1. What are the advantages of having a stock market in Ethiopia?
2. What are the requirements for starting a stock market?
3. What considerations influence the development of a stable stock market?
4. What problems do exist in establishing stock market in Ethiopia?
5. Is Ethiopia's legal and regulatory infrastructure (framework) sufficient to develop strong stock market?

1.4. Objectives of the Study

General Objective

The general objective of this study is to assess challenges and opportunities of establishing a stock market in Ethiopia with particular reference to the selected business sectors.

Specific Objectives

- ✓ Assessing the advantages and importance of establishing notable stock market in Ethiopia,
- ✓ Analyzing the necessary prerequisites to establish well established stock market,
- ✓ Investigate whether there is adequate legal and regulatory infrastructure to establish stock exchange market in Ethiopia or not.

1.5. Significance of the study

By highlighting the country's stock market trading condition and seeking to identify realistic (recommended) choices for creating a stock exchange market in Ethiopia, this study was benefit authorities and other in their attempts to establish a sound stock market in Ethiopia. It can be used as a starting point for future research on related issues. It also aims to persuade the government to issue detailed stock market rules and regulations, increase public awareness of the country's current legal and regulatory framework, communication network infrastructure development, and economic development, broaden existing stock market knowledge in society, encourage academicians to conduct additional research, and serve as a reference material for future research.

1.6. Scope of the Study

The scope of this study was focused to the problems and potential of creating a stock market in Ethiopia, with a focus on the selected business sectors. Due to the fact that there is currently no stock market in the Ethiopia, Data was gathered through interviews with key informants and other interviewees from national organizations dealing with financial, legal, and service delivery concerns in the country. For that reason, this study is delimited in three main categories such as geographical, conceptual and methodological scope.

1.6.1. Geographical Scope

The research was conducted out in Addis Ababa in a few sectors to determine the challenges and opportunities of establishing a stock market in Ethiopia. The research study was conducted from April to June 2022.

1.6.2. Conceptual Scope

The research is limited to the growth of the stock markets, as well as long-term investment and financial demands. The advantages, constraints, and possibilities of creating a stock market in a developing nation were examined in this research. This study aids in the establishment of structured and coordinated financial markets in which securities (bonds, notes, and shares) are purchased and sold at prices determined by supply and demand. It also aids in the formation of primary markets, in which corporations, governments, municipalities, and other incorporated bodies can raise capital by channeling investor savings into productive ventures, as well as secondary markets, in which investors can sell their securities to other investors for cash. It also aids in the reduction of investment risk and the maintenance of system liquidity. It focuses on the electronic stock market, which can be viewed as a type of remote or virtual marketing, or the supply of financial services using telecommunication equipment.

1.6.3. Methodological Scope

The focus of this study is on qualitative research with a descriptive research methodology. It employs a systematic research strategy for gathering data from a representative sample of people by applying focus group interview. The study uses a variety of publications, books, and journal articles that are linked to the topic matter as data sources.

1.7. Limitation of the study

Due to a time constraint, data will be gathered through interviews with key informants and other interviewees from various national organizations involved in financial, legal, and service delivery concerns in the country. The research has a limitation in terms of the availability and sufficiency of relevant information about stock firms and their profiles. Furthermore, because the country lacks contemporary stock market experience, certain critical information may be unavailable.

1.8. Definition of terms

- ✓ **Stock:** a share of ownership in a business
- ✓ **Stock Market:** the market in which investor's trade stock with one another by using the services of brokers
- ✓ **Stock exchange:** a place where stock brokers trade stocks
- ✓ **Securities market:** is a component of the wider financial market where securities can be bought and sold between subjects of the economy, on the basis of demand and supply.
- ✓ **Capital Gain:** profit from stock sale over a year

1.9. Organization of the Study

The study is going to be organized in to five chapters. The first chapter has introduction, statement of the problem, objective of the study, significance of the study, scope of the study and organization of the study. The Second chapter covers literature survey while the third chapter focuses on the methodology part. The fourth chapter has data presentation, analysis and interpretation, whereas, the fifth chapter summarizes the findings, conclusion and recommendation of the study.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. INTRODUCTION

Before defining the stock market, it's a good idea to first define what a stock is, “**Stock**” is distinguished from “**bonds**” and, ordinarily, from “debentures” in that it gives right of ownership in part of assets of corporation and right to interest in any surplus after payment of debt. The term stock can be defined as “the capital or principal fund raised by a corporation through subscribers contributions or the sale of shares”(Frey & Black, 1934). Stock represents a share of ownership in a corporation. It is a security that is a claim on the earnings and assets of the corporation. Issuing stock and selling it to the public is a way for corporations to raise funds to finance their activities (Frederic S. Mishkin, 2004).

Stocks are commonly traded on the stock market. According to Musonera & Safari, (2008) in the review *Establishing a Stock Exchange in Emerging Economies* stock Market is an organized market for the trading of stocks, bonds and other securities. It provides a mechanism through which companies can raise capital for expansion purposes by selling and issuing securities (stocks and bonds). The origin of stock markets is to be found at the beginning of the Industrial Revolution that began in Europe about four centuries ago. The early associations for trading were either individual owners or partnerships. Many of the pioneer merchants of the industrial age wanted to start huge businesses, which no single merchant could accomplish alone. It therefore became inevitable for them to come together, pool their savings and start their businesses as partners and co-owners. The contribution of each partner to the enterprise was to be represented by a unit of ownership. This was the precursor to what we call shares and through this, joint stock companies were born.

A stock market is a market for stocks (securities) which can be either debt or equity, where business enterprises which includes companies and governments can raise long-term funds. In other words it is defined as a market in which money is provided for a period of more than a year. Capital market acts as an important link between savers and investors. The savers are lenders of funds while investors are borrowers of funds (Kumar, 2007). Oganga, (2019) Also on his study capital market can be either a primary market or a secondary market. In primary

market, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments issue only bonds, whereas companies often issue both equity and bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary market, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises.

Another author Mebrahtu, (2014) studies about stock market it's worth noting that stocks can be traded and acquired on the primary capital market. In primary markets, new businesses can start by acquiring cash directly from households, and then selling fresh stocks to investors through the underwriting system. According to Chewaka, (2015) The selling of common stock to the public through Initial Public Offering (IPO) in the primary market is an instance whereby widely held share companies under formation offer new shares to the investors. On the other hand, in the secondary market, existing stocks are sold and bought among investors or traders in the stock market through stock exchange.

Stock markets have been identified as locations for engaging in economic transactions of buying and selling stocks or shares which are the ownership claims on businesses. This represents an aggregation of buyers and sellers of stock and need not be a physical location or a discrete entity. Stock markets are also known by different names as share markets and equity markets. A stock exchange, also called a securities exchange or bourse is the name given to the facility for engaging in buying and selling of shares of stock or bonds or other financial instruments. A security must be listed on a major stock exchange in order to be traded on one. In a nutshell, the system of stock markets is made up of several stock exchanges and their interconnections. Stock markets have also become worldwide phenomena (Asalatha, 2019).

2.2. THEORETICAL LITERATURE

2.2.1. Stock Market Related Theories

2.2.1.1. Portfolio Theory

All of modern portfolio theory is concerned with the properties of returns from alternative investments vehicles. The concept of return is always defined in terms of cash flow to the investor plus change in market value. To be more precise, the “rate of return” on a security over a particular period is the change in price of the security plus any cash flow that accrues to the holder of the security over the period, divided by the original price of the security. For stocks, return consists of both dividends and capital gains, while for bonds it is interest paid plus the change in price, each divided by the price at the beginning of the measurement period (Gruber, 2003). The core principle behind Portfolio Theory is that an investment's risk should be assessed based on its contribution to the total risk of a portfolio of securities rather than variances in the expected return of individual assets (Guiso & Jappelli, 2014). As a reason, this theory is favored to this study because the logic behind its concept that effective diversification of investment portfolios reduces the degree of risk associated with a given planned return. Portfolio Theory is predicated on a number of assumptions about how capital markets and investors behave in uncertain situations. Furthermore, Portfolio Theory has far-reaching consequences for investment selection and decision-making.

2.2.1.2. Expectations Theory

This theory is premised on the idea that investor build expectations based on all available information in the market. It maintains that the present spot rate is the greatest predictor of future interest rates, and that interest rate movements are largely due to unanticipated information or changes in economic fundamentals. It can be integrated with the loanable funds theory in order to better consider the available information within the economy. The limiting factors of rational expectation theory are mostly related to the difficulty in gathering information and understanding how the public uses its information to form its expectations (Caplan, 2000). This theory was chosen for this study because if people (investors) expect interest rates to rise, they will avoid borrowing, which will affect bank performance due to lower interest rate earnings. However, if

people (investors) expect interest rates to fall, they will be willing to borrow, which will improve bank performance due to higher interest rate earnings.

2.2.1.3. The Efficient Markets Hypothesis (EMH) Theory

The intellectual dominance of the efficient-market revolution has more been challenged by economists who stress psychological and behavioral elements of stock-price determination and by econometricians who argue that stock returns are, to a considerable extent, predictable. The efficient market hypothesis is associated with the idea of “Efficient Capital Markets.” It was generally believed that securities markets were extremely efficient in reflecting information about individual stocks and about the stock market as a whole. The accepted view was that when information arises, the news spreads very quickly and is incorporated into the prices of securities without delay. Thus, neither technical analysis, which is the study of past stock prices in an attempt to predict future prices, nor even fundamental analysis, which is the analysis of financial information such as company earnings, asset values (Malkiel, 2003). As a result, this theory is chosen for the investigation, According to EMH, stocks are always in equilibrium, and it is impossible for an investor to continually outperform the market and earn a higher rate of return than the stock's risk warrants. Because the EMH is so important to understanding stock markets, it's worth going through some of its key characteristics, assumptions, and supporting data.

2.2.2. Importance of establishing well-functioned stock market

A well-functioning stock market is crucial to economic development because it enables companies to quickly receive resources from the wider public. In a word, stock markets provide a secure and regulated environment in which market participants may trade shares and other eligible financial items with no or little danger of losing money.

Efficient stock markets may also reduce the costs of information. They may do so through the generation and dissemination of firm specific information that efficient stock prices reveal. Stock markets are efficient if prices incorporate all available information (Adjasi & Yartey, 2007). Smith et al., (2002) The establishment of stock markets is generally seen as beneficial for a variety of reasons, including their ability to attract inward portfolio investment, boost domestic savings, and improves the pricing and availability of capital for domestic investment. Tessema, (2003) on his study points about well-functioning stock markets have the following benefits:

Enhance savings mobilization, Help in resource allocation, Promote efficient financial system, Help term transformation and improve capital structure, Allow de concentration of ownership, Improve accounting and auditing standards, Provide effective tools for monetary and fiscal policy and help privatization efforts.

Well-functioning stock markets collect information about the prospects of firms whose shares are traded and make it available to creditors and investors. By improving the flow of information about firms and simplifying takeovers, well-functioning stock markets may contribute to corporate control and thus lead to greater managerial competency. Better corporate control and firm management will, in turn, promote investment and efficiency (Demirguc-Kunt & Maksimovic, 1996).

Adaramola, (2013) also pointes in stock market, the investors' invest their savings with an expectation of earning some income. This income may be termed as "stock returns" which may be in the form of profits earned from trading of shares or the dividends received. These dividends may be paid to the shareholders out of the profits earned; may be quarterly, half yearly, yearly, etc. The stock prices or returns are bound to be affected by various risks occurring within a country and also events occurring across the world. A well-developed stock exchange market plays very important role in the economy, as it mobilize resources for productive and huge investments, which will lead to economic growth, it is essential for a country to have a strong regulation system, updated technology platform, stable economy, security, and public knowledge as a pre-requisites for developing stock market to push the country's economy positively.

A stock market in simple terms may be a place, physical or virtual where investors through financial intermediaries lend funds for a fixed long term to borrowers in exchange for financial assets. The maturity period of the financial assets is above a period of one year in addition to interest accruing thereof. The demand for funds mainly comes from the government (national, devolved and local), individuals who seek funds to put into action their entrepreneurial skills, private and public corporations seeking to expand their production. In order to raise long term funds, the borrowers issue shares, long term bonds, debentures and other securities (Oganga, 2019b). On the Kaynak & Jain, (2020) study explained A well-functioning stock (capital) market facilitates the allocation of capital to productive use in companies by encouraging the placement

of shares and bonds in the primary market. It gives investors an efficient means of buying or selling assets in a liquid secondary market, and it requires companies to provide accurate information to investors to facilitate for them to make sound investment decisions and by doing so promotes good corporate governance.

According to Wei, (2005) stock market has the following importance's; (1) it provides a mechanism for companies to sell securities in order to finance corporate expansion; (2) it provides a means for investors to buy and sell their outstanding shares; (3) it establishes share prices that assist in monitoring firms and allocating resources; (4) it encourages risk-taking by spreading risks and rewarding profitable investment; and (5) through corporate control, it allows managerial failure to be corrected through its markets.

2.2.3. Challenges in the establishment of stock market

Pagano, (1993) demonstrated that regulatory and institutional considerations may have an impact on stock market performance. For example, mandatory disclosure of reliable information about firms may enhance investor participation, and regulations that instill investor's confidence in brokers should encourage investment and trading in the stock markets. Kazarwa, (2015) found that the development of a stock market is limited by the slower expansion of capital markets and the limited role played by capital markets in economic development in most developing countries. Furthermore Kazarwa, (2015) identified factors such as political stability, population, literacy rate, privatization and public awareness that play a vital role in the development of a stock market.

According to Tessema, (2003) One of the main challenges for developing countries like Ethiopia is to improve the quality of financial intermediation and resource allocation to contribute to a more rapid rate of economic growth. Recent developments in sub-Saharan Africa hint at benefits to be gained because of opportunities from the domestic capital market. More than two dozen African countries have now put in place stock exchanges. And also Kaynak & Jain, (2020) One factor in establishment of a well functioned stock market is determining an investor's willingness to invest in a country's capital market is the transaction cost of investment in terms of time, effort and money. There are many components that determine this cost, many of which will be further evaluated when looking at the internal workings of the financial system, but from the

investor's point of view these factors include: Availability and accessibility of intermediaries (banks and brokerage firms), Commission costs (payment from investor to intermediary) and Availability of investment products (such as mutual funds).

Agarwal, (1999) Stock markets can influence the economy through a variety of other channels, some direct (e.g. takeovers) and some indirect (e.g. macroeconomic signaling, interactions between the foreign exchange and the stock markets). According to Parker, (2012) Study provides significant evidence that opening a formal stock market has little influence on growth. While there are certainly cases where stock markets are a boon to an economy, there are also instances where opening a stock market is detrimental or has no effect on growth. Individual characteristics of the instances where stock markets deliver societal benefits are likely the most important determinant of whether a stock market will influence growth.

Lack of integrated stock markets in Africa does not only affect the effectiveness of price discovery which depresses savings opportunities and investments and hinders economic progress but is an inimical practice in a globally integrated world. Having well-integrated stock markets in Africa is of great importance thereof (Ncube & Mingiri, 2015). Kaynak & Jain, (2020) by using Capital Market Diagnostics (CMD) model suggested challenges of establishing stock market in many developing countries there has been a historical shortage of institutions that promote transparency and openness. In others, such institutions have been installed but the public trust and confidence in them are often low because of mismanagement or corruption. By installing or reinstalling institutions, and providing them with a setting (economic, legal and informational) that supports rather than impedes them, an institutional side-effect that enhances trust and confidence for the new system in whole can be reaped. According to Ntim, (2012) Fragmented existence and lack of economies of scale and operational efficiency render most of them extremely illiquid, small and on the fringes of the competitive global financial markets place. Consequently, their informational efficiency is greatly diminished, and this severely affects their ability to allocate capital efficiently.

2.2.4. The roles of stock market for economic growth

While a number of studies were undertaken to understand the importance and relationship between stock market and global economic growth. Asalatha, (2019) Stock markets are without

any doubt, an integral and indispensable part of a country's Economy. Economic expansion fuelled by technological changes, products and services innovation is expected to create a high demand for stock market development. Riksbank et al., (2002) Also the stock market is one of the most important sources for companies to raise money. Experience has taught us that the price of shares and other assets is an important part of the dynamics of economic growth. Rising share prices, for instance, tend to be associated with increased business investment and vice versa. Share prices also affect the wealth of households and their consumption. Therefore, central banks tend to keep an Argus eye on the development of the stock market and reflect on how the financial system functions. Another reason is the oversight of financial stability. According to Mosissa Jalata, (2014) the existences of large, efficient and deeply developed capital markets promote rapid economic growth and to that extent, there is a direct link between capital market development and economic growth if it is efficiently managed. Hence; at present, capital market becomes the dominant sources of external financing for companies throughout the developed world by winning the contest of financial intermediaries. And in the future, capital markets appear likely to dominate the corporate finance of both developed and developing countries across the world.

Stock market development has assumed a developmental role in global economics and finance following the impact stock markets have exerted in corporate finance and economic activity. For instance, due to their liquidity, stock markets enable firms acquire much needed capital quickly, hence facilitating capital allocation, investment and growth. Stock markets also help to reduce investment risk due to the ease with which equities are traded. Stock market activity is thus rapidly playing an important role in helping to determine the level of economic activities in most economies (Adjasi & Yartey, 2007). Pardy, (1992) and Boubakari & Jin, (2010) also suggested A securities market's main advantage is that it provides a liquid trading and price-setting mechanism for a wide range of economic instruments. This allows capital raisers and investors to distribute risk and meet their maturity preferences (generally long-term) with investors' maturity preferences (typically short-term) (often short-term). This, in turn, promotes investment and lowers capital costs, leading to long-term economic growth; therefore stock market expansion and economic growth have a long-term relationship. It demonstrates that stock market liquidity contributes to the improvement of the future economy.

The impact of the stock market development on economic growth has long been a controversial issue. The theoretical debates generally focus on the increasing intermediation roles and functions of the stock market in promoting liquidity, mobilizing and pooling savings, generating information for potential investments and capital allocation, monitoring firms and exerting corporate control, and providing vehicles for trading, pooling and diversifying risks(Wang & Ajit, 2013). According to Asalatha, (2019) on his study about Indian Stock Markets Overview and A Literature Review Over the years, the Indian capital market system has undergone major fundamental institutional changes which resulted in reduction in transaction costs, significant improvements in efficiency, transparency and safety. All these changes have brought about the economic development of the economy through stock markets. In the same way, economic expansion fuelled by technological changes, products and services innovation is expected to create a high demand for stock market development.

Most of the finance literature assumes the existence of liquid, well-functioning stock markets. However, According to Demirguc-Kunt & Maksimovic, (1996) economies without a well-functioning stock market may suffer from three types of imperfections; First Investors and businesses have fewer options for risk diversification if there is no stock market or if the stock market is not liquid. To buy business stock that is traded on an illiquid market, outside investors may have to pay a premium, Second firms are unable to organize their financing packages optimally in the absence of a well-functioning stock market. There are always conflicts of interest between a company's executives and its customers and suppliers, as well as between various types of investors and Third Also provides cash, stock markets are key sources of information. Stock markets that are well-functioning gather information about the future of the companies whose shares are traded and make it available to creditors and investors.

Developing a stock market requires the establishment of strong regulatory and legal frameworks, efficient market infrastructure, and the establishment of a critical mass of market participants, aimed at ensuring the existence of fair, transparent and orderly markets. The government and concerned private sector bodies should work together to adequately fulfill these conditions for the successful stock market establishment (Zena, 2021). Wang & Ajit, (2013) the impact of stock market development on economic growth has long been a key issue. The stock market's increasing intermediation roles and functions in promoting liquidity, mobilizing and pooling

savings, generating information for potential investments and capital allocation, monitoring firms and exerting corporate control, and providing vehicles for trading, pooling, and diversifying risks have long been a contentious issue.

2.2.5. The impacts of financial sector development on Economic Growth

International financial markets have changed dramatically over the past several decades. Financial sector depth and activity in the largest developed economies started to increase sharply in the early 1970s and boomed during the 1990s. Financial intermediation through both financial institutions and securities markets expanded at a remarkable rate. The spectrum of financial services and instruments widened substantially. The sum of credit from financial institutions, stock market capitalization, and private bonds outstanding reached, on average, approximately 260 percent of GDP for G-7 countries in 2004, compared to about 100 percent in 1975 (De la Torre & Schmukler, 2006). According to Smith et al., (2002) Financial sector reforms have often included the establishment of new stock markets, or improving the environment in which existing stock markets operate.

Financial sector development, according to a current line of study, boosts growth through boosting optimal investment allocation through multiple mechanisms: (1) fund pooling, that is, making large investment projects possible and lending cheaper; (2) risk diversification, that is, reducing productivity and default risks by holding diversified portfolios; (3) liquidity management, that is, providing liquidity to investment projects; (4) screening, that is, gathering and evaluating information on projects to channel funds to the most profitable ones; (5) monitoring, that is, disciplining borrowers performance to make sure they fulfill their commitments. A well-functioning financial system improves resource allocation through these mechanisms (Garcia & Liu, 1999).

Economic growth in a modern economy hinges on efficient financial sector that supports domestic saving and mobilizes foreign capital for productive investment. Without an effective set of financial institutions, productive projects may remain unexploited. Inefficient financial institutions will have the effect taxing productive investment and thus reducing scope for increasing the stock of equipment need to complete globally. Inefficiency can substantially cut growth from the levels that might have been possible given appropriate and market structure

(Bekaert & Harvey, 1997). The growing importance of stock markets in developing countries around the world over the last few decades has shifted the focus of researchers to explore the relationship between stock market development and economic growth. The motivation is derived primarily from the obvious policy implications of the findings of such studies for the developing economies. The role of financial sector reforms in strengthening the development of stock market is insurmountable. This is mostly aimed at consolidating macroeconomic stability and property right of the investors or shareholders, creating a friendly and competitive business environment for increase business activities to improve financial soundness and stock markets, thus, integrating domestic financial system into world financial market (Guha Deb & Mukherjee, 2008).

The most efficient allocation of capital is achieved by liberalizing financial markets and letting the market allocate the capital. But if the financial market is composed of banks only, the market will fail to achieve efficient allocation of capital because of the shortcoming of debt finance in the presence of asymmetric information. Thus, the development of stock markets is necessary to achieve full efficiency of capital allocation if the government is to liberalize the financial system. While banks finance only well-established, safe borrowers, stock markets can finance risky, productive and innovative investment projects. The primary benefit of a stock market is that it constitutes a liquid trading and price determining mechanism for a diverse range of financial instruments. This allows risk spreading by capital raisers and investors and matching of the maturity preferences of capital raisers (generally long-term) and investors (short-term). This in turn stimulates investment and lowers the cost of capital, contributing in the long term to economic growth (Marinković et al., 2013).

The well-known literature on the relationship between financial development and economic growth is substantial. R. Levine, (1996) suggests that financial institutions and markets can foster economic growth through several channels, i.e. by (i) easing the exchange of goods and services through the provision of payment services, (ii) mobilizing and pooling savings from a large number of investors, (iii) acquiring and processing information about enterprises and possible investment projects, thus allocating savings to their most productive use, (iv) monitoring investment and carrying out corporate governance, and (v) diversifying, increasing liquidity and reducing inter temporal risk. Each of these functions can influence saving and investment

decisions and hence economic growth. Since many market frictions exist and laws, regulations, and policies differ markedly across economies and over time, improvements along any single dimension may have different implications for resource allocation and welfare depending on other frictions in the economy. Garcia & Liu, (1999) identified three main channels through which financial intermediaries and markets may influence economic growth. First, a developing financial sector makes room for increasing saving rates, second, by reducing information and transactions costs, the financial intermediaries and markets perform the essential economic function of increasing the funneling of funds from lenders to borrowers. Third, the financial sector improves the allocation of resources.

2.3. EMPIRICAL REVIEW

2.3.1. Stock market in Global Perspective

There is a wealth of literature on the development of stock markets in the world by many researchers and institutions at various time periods and countries. It is believed that the first stock markets begun in Belgium and in the Dutch cities such as Bruges, Flanders, Ghent and Rotterdam. Oganga, (2019) Van der Beurze was an influential man in 13th century that his house conducted transactions similar to those of a stock market. The Van der Bourse family revolutionized the stock market. Traders exchanging debts and other securities no longer had to move over long distances seeking for other people interested in trading with them.

The globalization of the world stock markets is the most significant development that has occurred during the last decade. Various factors contributed to this including: the advancement of technology and remote access which have been utilized in security trading, the emergence of new international financial institutions offering financial services regardless of geographical jurisdictions, trends of liberalization and the removal of restrictions used to be imposed on foreign ownership, and the movement towards regional integration of that stock exchanges, clearing and settlements organizations, and other financial institutions (Srikanth & Aparna, 2012). The stock market's development has been criticized by a number of scholars. World stock markets are booming. Developing country stock markets compose a disproportionately large amount of this growth. Over the past 10 years, world stock market capitalization rose from \$4.7 trillion to \$15.2 trillion, and emerging market capitalization jumped from less than 4 percent to

almost 13 percent of total world capitalization. Similarly, over this decade, the trading of shares on emerging stock exchanges rose from less than 3 percent to 17 percent of the total value of transactions on the world's stock exchanges (Ross Levine & Zervos, 1996).

Stock markets have also grown to be a global phenomenon. Developed countries and developing countries around the world have developed their stock markets with some of the most active stock markets existing in countries like the US, the UK, Japan, India, China, Canada, Germany, France, South Korea and the Netherlands (Asalatha, 2019). The other researchers Demirguc-Kunt & Maksimovic, (1996) Over the past ten years, total capitalization of stock markets worldwide has grown from \$4.7 trillion to \$15.2 trillion; developing countries' share of this total has jumped from less than 4 percent to 13 percent. These increases have been accompanied by the liberalization of stock markets, especially in the developing world. In a successful attempt to attract foreign portfolio flows, many developing countries have removed restrictions on foreign ownership, liberalized capital account transactions, and improved accounting and information standards. Portfolio flows of equity investment to emerging markets have increased sharply in recent years, reaching \$35 billion in 1994, compared with \$0.1 billion in 1985.

In the developed world, major stock markets emerged in the 19th and 20th centuries, led by the London Stock Exchange and New York Stock Exchange. Today, virtually every country or territory in the world has its own bourse. All of the world's major economic powers have highly sophisticated stock markets that are active and considerably contributing to their national GDPs. There are approximately 48,000 companies listed on stock exchanges around the world, and nearly USD95 trillion trades across these exchange platforms (Raubenheimer, 2020). According to Boubakari & Jin, (2010) The stock market development causality has been observed in the countries where the stock market is significantly active and highly liquid. More precisely, the causality runs from stock market proxies to economic growth show a significant relation between market capitalization, total trade value and turnover ratio on the GDP (Gross domestic product) and FDI (Foreign direct investment).

On the other hand different researchers are arguing about the importance and role of stock market in the country's economy. Stock market has an important role in the allocation of resources, both directly a source of funds and as a determinant of firms' value and borrowing

capacity (Wolfson, 1989). Marinković et al., (2013) and David Sutton et al., (1993) provided evidence that an organized and managed stock market encourages investment by identifying and financing productive projects that lead to economic activity, mobilizing domestic savings, allocating capital proficiency, assisting in risk diversification, and facilitating the exchange of goods and services.

Recent empirical research has identified Macroeconomic stability, substantial economic growth, a well-developed banking sector, and high-quality institutions have all been cited as essential factors in stock market development. Garcia & Liu, (1999) found income level, banking sector development, domestic savings and investment, and stock market liquidity as important determinants of stock market development in emerging markets. Although De la Torre & Schmukler, (2006) capital markets in many developed countries have witnessed a boom in the past decades, some countries experienced growth of their domestic capital markets, but in most cases this growth was not as significant as that witnessed by industrialized nations. Other countries experienced an actual deterioration of their domestic capital markets. Noticeable differences arise when comparing the development of domestic capital markets across regions. Among emerging economies, capital markets in East Asia have developed relatively well. On the other hand, markets in Latin America have lagged behind, with many of them characterized by high dollarization, short termism, and illiquidity.

More recently, the emphasis was given to stock Market is one of the significant aspects of every financial market. Broadly speaking the capital market is a market for financial assets which have a long or indefinite maturity. Modern capital markets are almost invariably hosted on computer-based electronic trading systems; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public. There are many thousands of such systems, most serving only small parts of the overall capital markets. Entities hosting the systems include stock exchanges, investment banks, and government departments. Physically the systems are hosted all over the world, though they tend to be concentrated in financial centers like London, New York, and Hong Kong(Kumar, 2007).

Securities markets work most efficiently when brokers, dealers and the like are knowledgeable, professional, skillful, honest, and have enough training and resources to perform these functions. The government, among other things, should permit private and state banks to act as market makers until such time that the stock exchanges start issuing licenses to dealers and brokers. The government should enlist the services of the International Finance Corporation (IFC) for operational and technical advice in training government staff and staff of financial institutions (e.g. accountants, financial analysts and lawyers) responsible for the operational, supervisory and regulatory aspects of securities markets activities. This would help in upgrading the quality in terms of technical skills and analytical capacity of the personnel in the securities markets business (Tessema, 2003). In some countries the entire market is dominated by one sector, such as energy or health care, resulting in the country's stock market closely tracking the ups and downs of that single worldwide sector. A traditional approach would suggest looking at the economic fundamentals of each country and the valuation of its stock markets. While stock market sectors across countries tend to be highly correlated, that doesn't mean their performance is the same just that they tend to following the same pattern. Correlation tells us how similarly sectors move together, but not how much they move. In other words, the same sectors in different countries produce gains of different magnitudes while still moving up and down in a synchronized way (Blackburn, 2011).

Most of the research to date on international stock market linkages has been concentrated on the major world stock markets (US, Japan, UK and Germany), although there has also been some work on the smaller developed country markets and Asian markets (Hong Kong, Singapore, etc.). The Mexican crash of 1994/1995 and its apparent transmission to other Latin American markets, as well as the recent episode of seemingly rapid transmission of financial market disturbances across East Asia, may well prompt more research into linkages between emerging markets. The issue of stock market linkages is also relevant from a policy perspective in an environment where moves towards greater regional economic integration are being promoted. Increased linkages between stock markets is a component of regional or international capital market integration, which is in itself important for the integration of the goods and services markets to be effective (Jefferis & Matome, 2001).

2.3.2. Stock market in Africa

Foreign investors are increasingly interested in investing in Africa, yet there are still problems that impede long-term economic development and progress. Some of the problems might be one of the elements affecting Africa's capital and stock exchange markets' long-term growth. However, the development and reformation of the financial sector undertaken by African countries to better the economic climate has resulted in an increase in the number of stock markets in Africa. There has been a lot of research done on the African stock market ecosystem. The study conducted by Ntim, (2012) refers Most African stock markets are very small and still growing compared to world market standards. They are fragmented, lack economies of scale, and lack operational efficiency.

In Africa, the first stock market was established in 1861, and 15 decades later, the region is now home to 36 stock exchanges serving 43 economies and representing 1,400 listed companies with a turnover of USD41.14 billion. These markets have grown steadily and demonstrated their capability to create prosperity on the continent. Successful fundraising initiatives by multilateral entities, such as the 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 (Raubenheimer, 2020). According to Smith et al., (2002) study most African stock markets are relatively small, many have grown rapidly in recent years, and there have been very rapid increases in capitalization and turnover over the past decade a number of factors have contributed to the expansion and growth of African stock markets.

Since the late 1980s, a number of African countries have established organized stock exchanges, partly to satisfy their quest for new capital, to encourage indigenization and to incorporate elements of market capitalism into their economies. Owing to their small size and low liquidity, significant efforts have been expended in integrating these equity markets. Through the African Stock Exchanges Association (ASEA), closer cooperation among African stock exchanges has been forged through the existing regional economic blocks. There has also been various policies aimed at integration, such as harmonizing trading practices, encouraging cross border listing of stocks, and promoting greater inter and intra-regional trade (Alagidede, 2008). Smith et al., (2002) at the end of 1997 there were 15 formal stock markets in Africa. These can usefully be divided into four categories: The first category is formed solely by South Africa which

dominates other African stock markets in terms of both size and sophistication. It is most infrastructural developed the largest, as well as one of the oldest stock markets in Africa. The second category consists of a group of medium size markets, which have been in existence for relatively longer time, consisting of Egypt, Kenya, Nigeria, Morocco, Tunisia and Zimbabwe. The third category is made up of a group of new and small, but rapidly growing markets, consisting of Botswana, Cote d'Ivoire, Ghana, Namibia and Mauritius and The fourth category consists of a group of very new and small markets, including Libya, Malawi, Mozambique, Sudan, Swaziland, Tanzania, Uganda, and Zambia, whose existence have been widely acknowledged and recognized by ASEA (African Stock Exchange Association).

Over the past few decades, the world stock markets have surged, and emerging markets have accounted for a large amount of this boom. In Africa, new stock markets have been established in Ghana, Malawi, Swaziland, Uganda, and Zambia. The rapid development of stock markets in Africa does not mean that even the most advanced African stock markets are mature. In most stock markets, trading occurs in only a few stocks which account for a considerable part of the total market capitalization. In addition, the market suffers from the problem of low liquidity. Low liquidity means that it will be harder to support a local market with its own trading system, market analysis, brokers, and the like because the business volume would simply be too low (Adjasi & Yartey, 2007).

The stock markets in East and Central African region have not gained full momentum yet and will need some more time to do so. Most of the countries have received help with the creation and maintenance of their stock market. Organizations, such as the World Bank, the African Stock Exchange Association, Capital Markets Advisory Council (CMAC), and East African Securities Exchanges Association (EASEA) have provided financial and advisory support for the establishment of stock exchanges in this region (Allen et al., 2011).

Unlike African stock markets, developed equity markets have large capitalization and a lot of listed companies. The total market capitalization for Africa relative to the total capitalization of world stock markets is not impressive. The growth is very slow considering the percentage difference over a period of time. Although Africa has seen a remarkable increase in stock market number, its accumulated capitalization is still in pale comparison to that of emerging and

developed markets (Mahama, 2013). Mulatu, (2016) conducts on his study challenges and prospects of establishing stock market in Ethiopia pointed Stock market paves way for circulation of money and allocation of resource which are very essential for the economic development and sustainability, African countries establish stock markets to trade in shares and allocate resources, emerging countries establish stock market to mobilize a long term capital to use it for the huge industrializations to that leads to economic growth and development, developed countries also used it to their corporations to be financed, and all these countries have reached to their stock market establishment goals.

African stock markets have shown some improvements over the years, in terms of market performance and listings, among others, full stock market development is still at infancy compared to global standards. Surprisingly, even the most advanced stock markets are still immature. There are various bottlenecks affecting the growth and efficiency of African stock markets and amongst those bottlenecks is the lack of access to the banking sector to the private sector (Mendelson et al., 2010).

African stock markets face serious challenges in terms of depth measured by market capitalization and listing. Except for South Africa and Egypt, African stock markets remain the smallest of any region, both in terms of number of listed companies and market capitalization. There is a growing awareness that the mere establishment of stock exchanges is of very limited value unless there is an enabling environment for these markets to perform vital liquidity and information production. The potential impediments to the liquidity of African stock markets include limited trading activity by institutional investors, as well as governments which maintain minority stockholdings. However, as we shall see later, various governments have begun implementing policy measures that foster liquidity of the stock markets(Allen et al., 2011).

The establishment of stock markets in Africa is promised to boost domestic savings and increase the quantity and quality of investment. Stock markets are considered as a means to enhance financial system growth and capital market. This proposition is not far from critics though. Critics argue that the stock market might not perform efficiently in developing countries and that it may not be feasible for all African markets to promote stock markets given the huge costs and the poor financial structures (Gizachew, 2019).

Most of the stock exchanges currently existing in Sub-Saharan Africa were already established by the time the liberalization process started in the region. In effect, most developing economies started the process by opening their capital accounts, then liberalization of stock markets followed suit in early 1990s. These measures opened domestic stock markets to foreign investors and contributed considerably to the integration of these developing stock markets to the rest of the world (Atsin & Ocran, 2017). The policy implication of this evidence is that formally harmonizing and integrating African stock markets operations may improve their informational efficiency. This may generate economic benefits in the form more efficient allocation of capital and risk, which may facilitate faster economic growth. Finally, and since our data ends in 2011, future studies may extend our analyses by using more recent data, as well as by investigating the share return behavior of a larger number of national share price indices (Ntim, 2012).

The capital markets in Africa, however, are dominated by a very few large stock exchanges while most of the markets are small and underdeveloped based on international standards (Grimm & Bretschneider, 2018). Adjasi & Yartey, (2007) Also suggests on the literature sound macroeconomic environment, well developed banking sector, transparent accountable institutions, and shareholder protection are necessary preconditions for the efficient functioning of stock markets in Africa.

Stock exchange trading systems in Africa

African Securities Exchanges Association (ASEA) was established in 1993 to provide a concerted effort in lobbying for and promoting the position of African stock exchanges as drivers of economic growth in the region. ASEA hosts 26 exchanges in Africa and was established with the aim of developing member exchanges to be significant drivers of economic and societal transformation in Africa. ASEA works closely with its member exchanges to unlock the potential of the African capital markets and the African economies they serve (Raubenheimer, 2020). In Africa, stock exchange markets have been established in many countries such as Tanzania, Rwanda, Kenya, Swaziland, Botswana, Ghana, Malawi, Zambia, and Uganda. Prior to 1989 there were just five stock markets in sub-Saharan Africa and three in North Africa. Today there are more than 20 stock exchange markets in Africa and have been one of the domestic financial liberalization programs of most African countries. The main factor towards the establishment of stock exchange markets in African countries during the past few decades is linked to some

important factors for development of global financial market and economy. Despite of establishment of stock exchange markets in Eastern and Sub-Saharan countries still there are challenges which hinder the sustainable development of these markets (Massele et al., 2013).

The African stock exchanges that have adopted automated systems include Johannesburg Securities Exchange (JSE), Algerian Stock Exchange, Bourse Regionale des Valeurs Mobilières (BRVM), the Cairo and Alexandria Stock Exchange (CASE), Stock Exchange Mauritius, Namibia Stock Exchange, Tunis Stock Exchange, Zambian Exchange, and Nigeria Stock Exchange. The manual systems used by most of the stock exchanges in Africa pose impediments to operational efficiency, as well as liquidity, as they pose bottlenecks in terms of slowing down trading and information production of the stock market. Therefore, it is important that sub-Saharan African stock exchanges adapt fast to automation and electronic systems. It is encouraging that Sub Saharan Africa (SSA) stock exchanges are gradually adapting to electronic systems. This is particularly important as African stock exchanges contemplate consolidation of regional markets, which would be difficult without automation(Allen et al., 2011).

The Johannesburg Stock Exchange (JSE) will be 132 years old in November 2019. The JSE currently is the 19th largest stock exchange in the world, with a market capitalization of more than USD1 trillion, and the largest stock market in Africa, helping companies raise capital on the primary and secondary markets and enabling investors to share in company growth. There are about 350 companies listed on the JSE main board today, but the number has been in steady decline in recent years (Raubenheimer, 2020). Establishment of stock exchange market helps in private sector development. Access to and ease in movement of financial resources fundamentally influences the prospects for private sector growth in developing countries' economies. Market liquidity is seminal to create ready and willing investors all the time since such market makes investment less risky and more attractive (Hailu, 2020).

African stock exchanges face a number of challenges before they could enter a new phase of rapid growth. The first is the challenge of stock market integration. Many analysts have argued for the regionalization of stock markets in Africa as a way of addressing the problem of low liquidity, the second is the challenge of demutualization to solve the governance and profitability problems. Demutualization would be more relevant after African stock markets have

consolidated gains on technological and regulatory reforms and the third and most critical issue is the need to eliminate existing impediments to institutional development. These include a wider dissemination of information on these markets, the implementation of robust electronic trading systems, and the adoption of central depository systems. Furthermore, a strong legal and accounting framework, private sector credit evaluation skills, and government regulatory monitoring should all be reinforced (Adjasi & Yartey, 2007).

2.3.3. Stock Market in Ethiopia

The liquidity of the East African markets is abysmally low; in most cases the value of stock traded is less than 1% of GDP. The stock markets in East and Central Africa include Eritrea, Democratic Republic of Congo, Central African Republic, Kenya, Congo, Mozambique, Malawi, Tanzania, Uganda, Rwanda, Ethiopia, and Cameroon. These regions are not well established as many countries either do not have a stock exchange or have recently established a stock market. Stock exchanges do not exist in Eritrea, Democratic Republic of Congo, Central African Republic, and Ethiopia (Allen et al., 2011). Most of African countries have no capital markets and some of them lack both deep and wide structure of such equity and debt financing techniques. In addition to that, some countries such as Ethiopia still haven't opened the door for the complete liberalizations of their financial system though it may have its own deficiency (Mosissa Jalata, 2014).

Many authors including Tessema, (2003), Debessay & Harege-Work, (1994), Ruecker, (2011), Ali, (2016), Bairu, (2018), Tadesse et al., (2000), Mulatu Getachew, (2016), Dasalegn, (2015), Chewaka, (2015) and others advocated formation of an Ethiopian stock market.

According to World Bank Group (WBG) and International Monetary Fund (IMF) Spring Meetings 2019 edition, Ethiopia has made impressive strides along its developmental path. It has sustained average economic growth of around 10 percent over the past decade, making it one of the fastest-growing economies in the world, while also achieving substantial progress in social and human development. Job creation is now the critical development challenge, raising the importance of the private sector agenda. More than 20 million Ethiopians remain in extreme poverty and finding employment for the projected 2 million new annual entrants to the labor market over the next decade presents an urgent need to create productive jobs to drive inclusive

economic transformation (Country Private Sector Diagnostic Creating Markets in Ethiopia Sustaining Progress Towards Industrialization, 2019). Most of the businesses in Ethiopia are state owned; the government is promoting private ownership and loosening its grip on state owned assets. The percentage of firms owned by the government has reduced from 94% to 70% in just 8 years. Although this is a great improvement, more needs to be done in creating a competitive marketplace (Allen et al., 2011).

Ali, (2016) on his study titled *The Viability of Establishing Capital Market in Developing Countries The Case of Ethiopia* points, Since the eradication of the Addis Ababa Share Dealing Group in 1974 by the military government ruling Ethiopia at the time, no “capital market” has been in place in Ethiopia in whatever form. It is the only country in top 15 most populous countries of the world without stock exchange market. The necessity for “capital market” establishment has, nevertheless, been frequently talked about by various crowds/ stakeholders and academics. Consequently, assortments of inquiries have been conducted by these groups to commence the institutionalization of securities market in the country. Another writer Chewaka, (2015) strongly believe that In emerging countries like Ethiopia, stock markets have the potential to be tremendous engines of economic progress. He argues that a competent stock market gives investment options to the general population and mobilizes savings as well as international capital for effective company finance.

For the past five decade; though Ethiopia has struggled to have her own capital market, such market becomes an irony that have never been discovered and appreciated still today. To this end, Treasury bill becomes the only presently serving primary government bond market in the country (Dasalegn, 2015). Establishment of stock exchange market helps in private sector development. This implies the establishment of stock exchange market in Ethiopia will help the liquidity problem we are facing both in the private sector and government (Hailu, 2020b). Mulatu Getachew, (2016) conducted in his study the development of stock market is not without challenge, especially in developing economies like Ethiopia where a small market size, weak institutions, and unstable macroeconomic policies frequently get in the way of providing an enabling environment for stock markets. The proper functioning of capital market requires several preconditions that can generally be categorized into sound macroeconomic policy, strong institutional and legal setting, and a well-functioning financial infrastructure. Exclusive of such

preconditions, government efforts to develop capital markets are bound to fail, resulting in shallow markets and duped investors, and it is advisable such conditions are sufficiently in place before local capital markets are established.

Establishing a vibrant stock market in the country would attract the channeling of savings from the unbanked groups and semi-formal savings to the formal financial system. The establishment and development stock market in Ethiopia is a viable alternative and complementary mechanism to banking sector for the mobilization of the huge untapped savings in the semi-formal and informal form to support the investment and growth of businesses in the country (Zena, 2021). Ethiopia needs to attract ornamental amount of investors throughout the world for sustainable development of financing strategy through capital market, Ethiopia has to increase her effort towards advertisement of current situations in order to change the history's image that the world embraces towards Ethiopia. This attracts foreign investors' direct investment, enhances the balance of payments and improves effectiveness and sustainability of the country to issue the planned Eurobond. Above all, increasing some diplomatic relations with different countries of both developed and that of developing continents will empowers Ethiopia to integrate for trade, foreign direct investment and technology transfer among all. Since the Eurobond is inexpensive security in the frontier market, it presents a new window of opportunity for the country to achieve current Growth and Transformation Plans (GTP) and so that Ethiopia takes the challenge towards middle income country (Dasalegn, 2015).

As private businessmen and profit oriented companies in Ethiopia have difficulty in assuring long term funding from recognized banking institutions, the organization of a "capital market" could allow private sector companies to issue equity capital by way of marketing shares or long-term bonds, and the moment the securities issued they may be traded. This lends a hand to a maintainable private sector development which can facilitate to the progress of the economy. In addition, the formation of a "capital market" would augment internal banking business, of which a considerable portion is run by private banks (Ruecker, 2011).

The current realities of the Ethiopian economy have many favorable conditions (opportunities) that can pave the way for security market development. This includes Ethiopian-specific advantages, favorable macro-economic and social conditions, increased interest of foreign

investors, the Growth and Transformation Plan (GTP), financial sector development, enhanced saving and investment potential increased private sector participation, and high enthusiasm among stakeholders (Wale Letenah Ejigu, 2017). Bairu, (2018) concluded his study titled why Ethiopia does not introduce stock market? Policy reason or real condition, Ethiopia has encouraging dynamics contributing for the development of the capital market. Such as fast economic growth, energy expansion, blooming of private sectors and privatization process, capital flow improvement, household investment habit than saving and inclination to the establishment of incorporated companies, qualified companies for the establishment. Nevertheless, it is important to mention that the country is left with to improve governance, institutional, legal and policy framework which are vital for stock market activity. This is emanated from the lack of commitment.

According to Bayisasahu, (2017) Since Ethiopian companies are qualified in the eyes of stock exchange listing requirements; the establishment of stock exchange in Ethiopia is feasible. Thus, the government needs to consider the establishment of stock exchange in Ethiopia. This will help top raise capital, increase liquidity, and increase the valuation of the securities and the firm. In addition, the establishment of stock exchange in the country will help companies by reducing the cost that will be incurred to list abroad. Also Dasalegn, (2015) concludes his study and recommends Ethiopia should have to continue to reinforce institutional strengthening, better operational and financial performance, getting some robust internationally recognized mentors, consider capital market as a cheap package of funding and also as the debt and then increase effective public debt management, increasing diplomatic relations to integrate for trade, foreign direct investment and technology transfer, developing the most capable professional, regulatory, well-informed consumers and investors in the capital market, promoting international accounting standards and adherence to sound corporate governance based upon international best practices that promote good governance frameworks, transparency and accountability among all.

There is an absence of institutional, legal and policy framework for any security market activity in Ethiopia. The nonexistence of such structure will certainly be an impediment for introducing a “capital market” in Ethiopia. It is consequently vital that this framework is get underway earlier to the initiation of an official “capital market”. Lack of skilled human capital could also be a severe barrier in operating and administering a securities market, and security market activities in

particular. These hindrances for “capital market” function ought to be surmounted once a decision is made to commence the market (Ali, 2016). According to Wale Letenah Ejigu, (2017) Developing securities markets in Ethiopia face several direct challenges Some of the major challenges include: Low Quality and Quantity of Financial Services, Paucity in Communication Network, Policy Measures Impetus, Gaps in Accounting, Auditing and Legal Infrastructure, Low level of saving and financial literacy, Inadequacies in skilled manpower, and Forms of Business Organizations. Zena, (2021) Summarize his findings and policy recommendations for consideration in Ethiopia's stock market development both potential investors and issuing companies in Ethiopia do not have exposure to a functioning stock market, the government and concerned private sector bodies, hence, should give due consideration to the financial literacy aspect when moving ahead to establish the stock market.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Introduction

The methodological framework used to address the research problem and answer the research questions were described in this chapter. The chapter started with the chosen research approach, research design, Population and Sampling, Data Sources and types, Data collection procedures, Ethical Consideration and Data Analysis.

3.2. Research Approach

For this study the qualitative aspect of the research method were used that aims to obtain the data needed to identify the challenges and opportunities of establishing a stock market in Ethiopia within a selected business sectors.

3.3. Research design

A qualitative descriptive research design were applied in this study. This approach was used because the objective(s) is to examine the challenges and opportunities in establishing a stock market in Ethiopia by using the effect in institutional infrastructure frameworks, public awareness and trust in share investment, technological infrastructures, and macroeconomic levels.

3.4. Population and Sampling

This study were conducted in Addis Ababa. The main respondents chosen for this study were drawn from different levels in National Bank of Ethiopia (NBE) legal advisors, chamber of commerce experts, managers of different banks, Addis Ababa Chamber of Commerce and Sectorial Associations (AA-CCASA), Ministry of Finance (MOF) with Focus Group Discussion (FGD). The sampling frame of the organizations for this study is selected systematically, based on the list of specific functions expected to generate information.

3.5. Data Sources and types

Both primary and secondary data sources were used in this investigation. Through interviews Focus Group Discussion (FGD) and, primary data will be collected from employees of the Addis Ababa Chamber of Commerce and Sectorial Association, the Ministry of Finance, the National Bank of Ethiopia, banks, and other reliable sources. Secondary data, on the other hand, is gathered through books, reports, articles, studies, journals, newspapers, documentaries, TV interviews, websites, and manuals.

3.6. Data collection procedures

This study were require two types of data collection procedures. The most widely used standard tools i.e. interviews with Focused Groups were developed by the research. These tools exercised from higher to lower level in a various meetings, where each question in the checklist were reviewed and discussed to better reflect the views. Furthermore, the discussions with officials were done at various levels to ensure accountability requirements of stock market establishment in the country and quality of data collection at lower levels. Moreover, representative samples were taken into considerations to meet study objectives. Thus, secondary data were collected from the books, reports, articles, studies, journals, newspapers, documentaries, TV interviews, websites, and manuals. Document review is also the second data gathering tools on the threats and the enabling environment of stock market. The research examined strategic objectives, indicator outputs/results, activity plans, procedures, policies, rules and regulations, infrastructures, stock management, and other documents deemed relevant.

3.7. Ethical Consideration

The information received from respondents were kept confidential and used strictly for academic research. Furthermore, the researcher was not to reveal the respondents' names or identities in order to maintain objectivity and prevent compromising the respondents' political, religious, or social beliefs.

3.8. Data Analysis

After the data gathering procedure was accomplished, the following step was to appropriately analyze and evaluate the data (including primary and secondary data). The information was

quantified and analyzed using the descriptive approach. The primary and secondary data, on the other hand, was evaluated, quantified, and debated using words, assertions, and theoretical frameworks to support this assertion. Unstructured Interviewees questionnaires were summarized and organized. The acquired primary data was thoroughly studied for any missing information or assertions that were ambiguous. After ensuring that the necessary data is present in the proper format, the data is assembled in a format created specifically for this purpose. The qualitative data gathered from the respondents was categorized according to the study's main focus areas, which included the current capital market situation, the advantages of the capital market, the roles of the financial market, improvement, timing and hopeful factors, current technological and telecommunication infrastructure factors, and other capital market challenges. The aggregated data was analyzed using a descriptive analysis form, and the result was written in such a way that any reader could easily understand it.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

This chapter analyzes and discusses data gathered from a variety of sources in order to determine the challenges and opportunities of establishing a capital market in Ethiopia. The data collected through interview was analyzed using descriptive analyzes. Under this title, the research summarized and described important factors by identifying major opportunities and challenges for the establishment of a capital market in Ethiopia, as well as assessing the current situation in Ethiopia, which was done by gathering data from the National Bank of Ethiopia (NBE), Addis Ababa Chamber of Commerce and Sectorial Associations (AA-CCASA), Ministry of Finance (MOF), capital market project implementation team (CMPIT) and selected banks.

4.1. Major Determinants of Establishing Stock Market in Ethiopia

The majority of respondents in this study described the basics of establishing a capital market in Ethiopia as follows:

4.1.1 The government commitment

When asked about the amount of interest or support from the Ethiopian government for the creation of a stock market, the majority of respondents (70 %) identified the lack of government interest as one factor preventing the effective formation of a stock market in Ethiopia. Some respondents (30 %) also say the government is delaying capital markets after taking a lot of initiative to address the current country's problems. Although the government committed to establish a stock exchange in Ethiopia, it did not go as far as to raise public understanding of the capital market. It also lacked appropriately qualified human staff who assist the smooth operation of a stock market, resulting in a scarcity of professionals in the field. Chewaka, (2015), Ruecker, (2011) and Bairu, (2018) explained Ethiopia's stock market development is being delayed by the government's lack of commitment and the overall standard of corporate governance is low to establishing effective regulatory infrastructure. The current stoke broking in the over-the-counter (OTC) market is taking place in the absence of government involvement in facilitating the development and centralization of stock markets, and more effort will be required in the future to overcome the challenges associated with such dealer marketplaces.

4.1.2 Crating Public Awareness about Stock Market

The majority of Ethiopians are inexperienced with secured transactions and they haven't a basic knowledge of the stock market. The general public is unaware of the stock exchange's responsibilities, activities, and operations. A lack of public awareness of stock markets has limited corporate activity in several African stock exchanges. The general population should be educated about the benefits of investing in securities and encouraged to engage in both individual and group investments. The government should also encourage investment in public education. In terms of public awareness of stock markets, 99% of respondents thought that it is poor and they noted that there is still a lot of work to be done. Brokers, dealers, and others in the securities industry perform best when they are informed, competent, skilled, and honest, and have enough training and tools to do so (Tessema, 2003).

4.1.3 Macro-Economic Situation of the Country

The stock market's development is influenced by macroeconomic stability. More corporations and investors are likely to participate in the stock market as macroeconomic stability improves. Changes in monetary, tax, and exchange rate policy can affect firm profitability. As a result, the researcher hypothesized that nations with a stable macroeconomic climate would see better stock market developments. During interview 98 % of respondents believe the country's inflation rate is rising. This inflation reduces the purchasing power of the currency as the value of the birr depreciates, raising the cost of doing business in Ethiopia. Currency loss against the dollar has an impact on the country's macroeconomic stability, leading to inflation. Essentially, long-term macroeconomic stability may boost stock market growth and performance by encouraging investors to invest with a favorable outlook. Ethiopia is dealing with inflation, currency deflation, unemployment, population growth, and poverty. These variables may have an indirect or direct impact on the country's economic stability. According to trading economics website analysis Ethiopia's annual inflation rate accelerated to 36.6 percent in April 2022, up from 34.7 percent the previous month and hitting its highest level since November 2011. Adaramola, (2019) the establishment of a stock exchange market requires a stable macroeconomic environment because the two have a very positive relationship: the more stable the environment, the better the stock market performs, and the more volatile the macroeconomic environment, the more uncertain the stock market's performances.

4.1.4 Financial Sectors Development

Ethiopia currently has banks, insurance firms, and microfinance institutions owned by both the government and the private sector. Private Banks were created by offering securities to the public through initial public offers (IPOs) without a stock market, whereas government banks were established by the government obtaining initial capital. The financial services industry has typically demonstrated continuous performance as a public firm. According to 81% of the respondent participants on the interview the financial institutions in Ethiopia has the potential to generate a capital market. Foreign nationals were likewise barred from participating in the banking industry in the previous attempt. Domestic investors and Ethiopian-born foreign nationals have priority in the financial industry. Bringing foreign capital is one of the advantages of having a stock exchange market. Financial sectors are recognized for their reputation as stock markets, and if these sectors are closed to foreign nationals who may bring funds into the industry, the sector's success in other areas of investment is in question. Since a few years ago, the diaspora's contribution to Ethiopia's economy has increased significantly. Ethiopia plans to open up sectors that were previously exclusive to domestic investors as part of its goal to liberalize its economy and attract investment. The new legislation is an extension of Ethiopia's new investment proclamation, which went into force earlier this year and ensures that Ethiopian-born foreign nationals and foreign investors have a level playing field. Mulatu Getachew, (2016) indicates on the study different directions are used to ensure good practices, stability, and long-term institutional success in the financial system in general, and the banking and insurance sectors in particular. To improve the efficacy of institutional governance, it is necessary to assess public trust in the financial system, including whether financial institutions are owned and managed by people who are fit and proper.

4.1.5 Accounting and auditing standards

The respondents confirmed Stock market development necessitates thorough and effective monitoring and financial supervision. In developed economies, accounting and auditing are critical control mechanisms. And they acknowledged that the country's accounting auditing and reporting standards are poor, despite the stock exchange requiring worldwide financial reporting requirements. In fact, accounting and auditing data is supplied with the purpose of offering stockholders with the knowledge they need to make investment decisions. Apart from its

significance to creditors and competitors, financial statement data is often used in capital markets to forecast future cash flows. As a result, it helps investors and other interested parties in determining future risk and return. Ethiopia issued proclamation 847/2014 and regulation 332/2014, which require businesses to follow a uniform accounting and auditing standard. And the country adopted international financial reporting standards (IFRS) in the proclamation. Despite the importance of accounting and auditing standards mentioned above, 80% of respondents said that Ethiopian enterprises do not follow this financial statement preparation standard. However, certain respondents believed that these accounting and auditing requirements are followed by banking and insurance organizations. Legesse,(2012) explained to make investment decisions, securities buyers rely in part on business information supplied in financial reports. Increased reporting standards and criteria are frequently followed by the growth of securities markets, which add to the effectiveness of the markets and their mobilizing and allocating responsibilities

On the other hand Waktola,(2019) explained in her study Ethiopia there is a lack of professional competence and abilities to assess IFRS reports filed by these firms, and the process of examining these reports has not yet initiated. And also Ruecker,(2011) Ethiopia's accounting and auditing standards are not of a high enough degree to be accepted internationally . There are no standards for publicly published annual reports or their preparation and presentation in compliance with a complete body of accounting standards because there is no public offering and listing. Gizachew,(2019) Ethiopia has committed to embrace international financial reporting standards, despite the fact that the country is still in its early stages. The lack of competent internal and external financial statement users stifled investment flows into the nation. Accordingly the accounting and auditing standards in Ethiopia need to be improved.

4.1.6 Technology and Telecommunication Infrastructure

A technology that utilizes security instruments to provide secure financial transactions or markets between institutions and investors. According to respondents develop better communication technologies have the potential to make financial markets more efficient by allowing all players to exchange information more quickly and effectively. And Technology has also enabled the creation of effective electronic trading platforms outside of established capital markets.

The Ethiopian government is the fundamental driver of growth in the ICT (Information communication technology) industry, as well as a main client of ICT firms and the biggest stakeholder in Ethiopia's primary telecoms business, Ethio Telecom. According to the government's Growth and Transformation Plan 2, ICT would help the country achieve its goal of being a middle-income country by 2025. Ethiopia has opened up the telecom business to the private sector, giving two telecom operator licenses Safaricom Ethiopia has been given and announcing that it will sell 40% of Ethio Telecom, which government owns. And also Ethio Telecom announced the introduction of a pre-commercial 5G service in Addis Ababa on May 11, 2022. As a result, it is expected to make a significant contribution to Ethiopia's regulated capital markets infrastructure. In addition, basic network problems from time to time available to adjust, but pointed out that many jobs in terms of infrastructure around the technological developments.

4.2. The Current Stock Market Situation in Ethiopia

According to National Bank of Ethiopia report NBE, (2022) the amount of T-bills(Treasury Bills) provided at the weekly sale in the second quarter of 2021/22 was Birr 192.6 billion, representing an annual rise of 185.3 percent. T-bill demand also increased dramatically, reaching Birr 187.1 billion. The total amount of T-bills traded was Birr 182.3 billion, up 299.4% from the same period previous year. Non-bank institutions purchased T-bills for 44.7 billion Birr, while commercial banks purchased the rest 137.6 billion. And in Ethiopia, the corporate bond market is still in its infancy, with just a few public organizations and regional governments as major players. The primary purchaser of corporate bonds is the Commercial Bank of Ethiopia (CBE). CBE bought Birr 27.7 billion in corporate bonds in the second quarter of 2021/22. Ethiopian Railway Corporation bought Birr 13.0 billion in corporate bonds, EEP (Ethiopian electric power) & EEU (Ethiopian electric utility) bought Birr 12.2 billion, and Addis Ababa City Administration bought Birr 2.5 billion. But Ethiopia has currently no a capital market where securities (debt instruments) can be traded on secondary markets. The stock market allows the purchase of shares, whereas the bond market enables participating governments, institutions, and enterprises to sell and exchange bonds in the secondary market in order to raise long-term capital. In accordance with the recently enacted Capital Markets Proclamation, Ethiopia is working to establish a capital market. To put the Proclamation into action, the requisite institutions, policies, legal instruments (directives and regulations), and market infrastructure

must be put in place. Though Ethiopia has struggled for five decades to establish its own capital market, such a market has remained an irony that has yet to be discovered and recognized. As a result, the Treasury bill market is now the country's only principal government bond market (Mosissa Jalata, 2014). Ruecker, (2011) also put there is currently no securities market in Ethiopia, with the exception of short-term government treasury bills.

The National Bank of Ethiopia (NBE) formed the Ethiopia Capital Markets Project Implementation Team (CMPIT) with the goal of putting the Capital Markets Proclamation into action. The CMPIT reports to the Governor of the NBE until the Prime Minister appoints a Director-General for the Capital Markets Authority. The country's central bank, the National Bank of Ethiopia (NBE), was charged with preparing the legislative framework and came up with a draft capital markets proclamation, which was eventually accepted and adopted by the Federal Parliament in its regular session on June 10, 2021 as Proclamation No. 1248/2021. As a result, the government is taking steps to operationalize the Ethiopian Capital Market Authority by the end of 2021, and then the Ethiopian Securities Exchange in 2022, through public-private partnerships. But in the weakness and lack of commitment of executive branches (body's) until this period couldn't get to work.

4.3. Financial Institutions' Role in the Ethiopia stock Market Establishment

Banks, insurance firms, and microfinance institutions operated by both the government and the private sector are presently operational in Ethiopia. Private Banks were created by issuing securities to the public through initial public offers (IPOs) without the use of a stock exchange, whereas government banks were formed by the government obtaining initial capital. All respondents who are interacted on the interview, agreed that the financial sector plays the major role in establishing stock market in Ethiopia. The study revealed that the country's financial sectors are developing, but at a slow pace compared to other African nations such as South Africa, Egypt, Nigeria, Kenya, Tanzania, and Uganda. According to National bank of Ethiopia report (NBE, 2022) The number of banks operating in Ethiopia reached 20, of which 18 were private and 2 state owned. Total capital of the banking system amounted to Birr 156.5 billion with state owned banks accounting for 52.3 % and private banks 47.7 %. The share of Commercial Bank of Ethiopia, the biggest state owned bank, was 33.7 %. Total outstanding credit of the banking system (including corporate bond) reached Birr 1.3 trillion, showing a 20.7

% yearly increase. The number of insurance companies remained at 18, of which 17 were private and 1 state owned. And the total capital of insurance companies reached Birr 11.6 billion, with private insurance companies share being 73 %. Total micro-finance institutions (MFIs) reached 40 which mobilized Birr 52.3 billion saving deposit, showing an 11.5 % growth annual growth.

Financial sectors are recognized for their reputation as stock exchanges, and if these sectors are closed to foreign nationals who may bring large sums of money into the industry, the sector's success in other areas of investment is in doubt. Respondents from private banks recommended that political authorities, particularly those in the Ministry of Finance and the National Bank, should take important steps and assume responsibility for clearly forecasting effective market implementations by tightly integrating it with monetary institutions. And financial firms and facilities of high quality have a favorable impact on the strength and growth of for the future established stock markets. The research found that establishing financial institutions can help boost stock market growth; financial sector support services play an important role in capital/stock market development. According to (Walle, 2008) Financial institutions must be strengthened for a country to build and grow a well-functioning capital market. The most important FIs that may mobilize financial resources from consumers and infuse funds back into the capital market are banks (savings, investment), mutual funds, pension funds, credit unions, and savings associations.

To establish stock markets in Ethiopia must first assess the availability and capabilities of financial institutions. Before commencing on the formation of capital markets, the country's central bank, the National Bank of Ethiopia (NBE), commercial banks (public and private), insurance firms and Micro finance institutes (MFI), credit unions, and co-operative banks need all be reinforced. Specialized banks (such as investment banks) and mutual and pension funds must be established, and their capability must be reinforced by providing a good working environment, as well as financial specialists and brokers.

4.4. Economic Benefits (Advantages) Establishing A stock Market in Ethiopia

On the face of demand and supply considerations, global economic activity slowed in the first quarter of 2021/22, while worldwide inflation increased and oil prices increased. Oil prices have risen far above pre-pandemic levels. According to national bank of Ethiopia 2020/21 annual

report despite the insecurity in the country's north and the impact of the COVID-19 epidemic, Ethiopia's economy grew in 2020/21. Actual GDP increased by 6.3 percent in the budgetary year under review, up from 6.1 percent the previous year. IMF, (2021) Ethiopia's GDP is expected to grow at 8.7% in 2021/22, compared to 4.9 percent globally and 3.8 percent in Sub-Saharan Africa.

According to all respondents in my interview, the stock market's formation is seen as a step forward in Ethiopia's present economic progress, and the capital market serves a variety of functions in economic development and growth. Many economic advantages are generated by well-developed capital markets, including increased productivity growth, more job possibilities, enhanced macroeconomic stability, and a wide range of additional tangible and intangible price. The capital market is important to any financial ecosystem and serves as the country's beating capitalist pulse. Economic policies make it easier for the government to implement economic and governance transformations (reforms). Ruecker, (2011) Capital markets help to boost economic efficiency by directing money from those who don't need it right away to those who do. A well-functioning capital market, together with a well-developed financial sector, is the most valuable asset for any country's economy, since it promotes economic growth and contributes in poverty eradication.

4.4.1 The stock market encourages private sector growth.

All respondents agreed with capital market encourages private sector growth. The ability to access and transfer financial resources has a significant impact on the chances for private sector growth in Ethiopian economies. Capital markets can provide better pricing, longer maturities, and access to a larger pool of investors. They can also provide capital for risky businesses that are usually not supported by banks, so contributing considerably to economic innovation. Financial markets facilitate access to the mobility of financial resources, which has a significant impact on the possibilities for private sector growth in emerging countries. Every year, India and China, for example, add hundreds of new firms to their stock exchanges. The immediate advantage of Asia's robust capital market activity is seen in a significant boost in private sector development velocity (Legesse, 2012). And also Tessema, (2003) as he explained Small emerging companies will have better opportunities to raise funds in the private investment market as a result of the securities markets, as investors will be more comfortable investing in

startups recognizing that a future divestment can take place through a public offering at a potentially substantial profit.

4.4.2 The stock market indicates economic development and creates job opportunities

According to the majority of interview participants, stock market formation will regulate the economic climate and significantly contribute to job creation. The capital market is used to assess a country's economic performance. The price of a share fluctuates, as shares rise and fall, mostly due to market factors. When enterprises and the economy are in general unstable, price share fluctuation will rise or remain stable. The up and down movement of stock values is a leading predictor of a country's economic performance. On the other side the market, like any other commercial capital market, benefits the economy by creating jobs for citizens. The economy benefits from a capital market because it reduces unemployment. The market characteristics are that it is a diversified business with multiple players. It is an opportunity for jobless since many actors come up with diversified enterprises that require technology and human resources.

4.5. Timing for Ethiopia's stock Market Launch

According to the respondents who is legal advisor on the Capital market project implementation team (CMPIT) Ethiopia is too slow to establish a capital market and we are too late compared to other African countries and all most all respondents agree with this idea. The government also issued a proclamation to establish a regulatory board to direct, regulate, and oversee the work of public professional accountants, and began revising Ethiopia's commercial law. Furthermore, the government has lately begun to investigate the potential of establishing a stock market in Ethiopia by establishing Capital market project implementation team (CMPIT) on its own initiative. And the document is currently approved and wetting to start. In parallel to the investigation, Ethiopia's National Bank is preparing to give corporate governance guidelines to all financial firms. Officials and managers of private banks feel that the moment has come to develop a capital market, which includes a bond market, a stock exchange, and the development of the money market, among other things. And it believes that current circumstances in Ethiopia are appropriate for the establishment of a capital market. On the other hand Ephrem, (2020) on his study he put it is not the correct moment for Ethiopia to build a stock exchange. And he

suggest as a reason in existing structure, Ethiopia should not establish a stock market. An effective stock market is liquidity and capable of funding the dreams of entrepreneurs. Before exploring the idea of constructing a stock market, a number of conditions must be accomplished.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

The main goal of this research is to look into the advantages of establishing a stock market in Ethiopia, to analyze the preconditions for doing so, to look into the factors that contribute to the establishment of a stock exchange market, to stare into the challenges that come in establishing a stock exchange market in Ethiopia, and to determine whether Ethiopia's legal and regulatory infrastructure is sufficient to do so. The research draws the following conclusions and recommendations based on the results gathered from the respondents.

5.1. CONCLUSION

There have been discussions that have expressed opinions on the establishment of a stock market. The results of the survey, as well as a review of scholarly investigation and a review of some of the qualitative aspects of stock markets, showed the following significant benefits:

- ✚ According to the analysis, there is a lack of corporate governance, with share company founders, executives, and management putting their personal interests over the benefit of shareholders, particularly minority shareholders. Transparency in company operations, disclosure of important information in the firm, and reporting to a regulatory body that will be established for this point are all requirements of a well-regulated stock market. As a result, improved corporate governance will be established in organizations.
- ✚ Investors frequently have difficulty finding purchasers for their shares at a reasonable price and on time. Because of this limitation, shares will become volatile, affecting the public's attitude toward stock purchases. Companies will have trouble acquiring cash through the issuing of public shares if individual investors are harmed. A well-regulated stock market will offer a ready market for investors to purchase and sell their shares, bringing liquidity to company stocks and assisting both investors and firms with their financing needs.
- ✚ Business financing frequently involves bank loans. However, acquiring loans from banks is not always easy because banks can need significant collateral, have liquidity restrictions, or take a while to approve loans at some institutions. Furthermore, since they

might not have enough collateral to back their loans, new enterprises are unlikely to receive bank loans. A very well stock market can operate as an alternative source of funding for start-up and established businesses by generating a demand.

- ✚ Stock markets might potentially gain public confidence and become a competitive investment option if regulators properly protect investors' rights. And it would make a substantial difference in the adoption of new technologies.
- ✚ The country's stock markets also attract international investment. Foreigners will be prepared to invest in existing firms if the market is open and well-regulated, and there is public trust in the sector.

Despite the numerous advantages, creating a stock market in Ethiopia may be a challenging task, as some of the necessary prerequisites are currently insufficient.

- ✚ The government's commitment to furthering the formation of stock exchange markets falls short of the promises that were made. Furthermore, the government's capital market plans and policies are not absolutely clear. The government Attempt to move, particularly at different times to work, should not result in any real measures, but rather, publishing a variety of media till now.
- ✚ In the Ethiopian stock market, there is currently no regulating authority or any relevant entities. Instead, NBE (National bank of Ethiopia) issues Treasury Bills, DBE (Development bank of Ethiopia) handles the Great Renaissance Dam Bond, and NBE buys bills from banks, much as CBE (commercial bank of Ethiopia) does with government entities and DBE. On the other hand, IPO organizers sell shares, and the government sells government bonds without a stock exchange in the country. This is due to the lack of a complete legal infrastructure and regulatory framework, as well as outdated legislation governing share companies. There are no regulatory structures or agencies in place to oversee and regulate activity. This is a huge obstacle to the development of a stock exchange market since it cannot be done without it.
- ✚ Inadequate qualified human resources to conduct stock market and financial concerns. The stock market has numerous complex challenges, such as shareholder duplication, that require well-trained experts to handle.

- ✚ The awareness level of the public is not high as there is no stock market in the country. The general public has limited knowledge of primary stock exchange markets, much less the secondary stock exchange markets. And the public's level of trust, which is related to their level of awareness, is also poor.
- ✚ The financial sector, which is expected to support the growth of the stock exchange market, is expanding in terms of bank branches. However, though the industry is profitable, stockholders are concerned about putting their firms on the stock exchange and encourage new investors. The shareholders of well-performing banking and insurance businesses want to purchase additional shares for themselves and are unwilling to let fresh shares go public. And in terms of such macroeconomic factors, like economic growth, inflation rate, foreign direct investment, the country's position is alarming.
- ✚ The most of investment areas in the nation, including the financial industry, are designated for domestic investors under the country's investment laws and policies. This prevents potential foreign investors from purchasing securities on the secondary market and earning foreign money for the government. Expect future reforms from the government to address this.
- ✚ The majority of shareholders in stock corporations do not pay the full par value of their shares all at once. Typically, they pay in stages. As a result, many businesses do not have completely paid-up capital. It's unclear how equities with par values that aren't completely paid to the corporation may be traded on the stock exchange.

5.2. RECOMMENDATIONS

The research reflected the following recommendations based on the study results and conclusion.

- ✚ Before establishing a capital market, the government should acquire and use the experience of other African nations as a benchmark to establish a strong stock exchange market structure that can be adapted to Ethiopian circumstances.
- ✚ The government should prove its dedication by establishing clear capital market policies and strategies, as capital markets could be a source of revenue for the government's project development and implementation. The government should also establish the legal framework by implementing a stock market law that institutionalizes the basic guidelines and policies in a clear and strong standard.

- ✚ The government prior to the establishment of a stock market, it is essential to educate the public and raise public awareness about the costs and opportunities of a stock market. And also on a regular basis, the government should design and implement specialist training for officials, directors, and other professional. Training need to include aspects such as stock market concepts, regulations and processes, international financial institution requirements, technical information and analysis; regulatory elements such as resolving conflicts, records management, and standard reporting; and specific requirements and evaluation.
- ✚ Stock market Standard operating procedures (SOPs) should be developed by the government to clearly define the stock market system. SOPs will perform regular and frequent monitoring at all levels to execute accountability. IT-controlled stock market management solutions are necessary to get connected to stakeholders so that communication networks and activities in current operations may be enhanced. To boost the competence of stock market operations, massive investments in IT are essential.
- ✚ Besides from crucial facilities, the government should allocate funds to establishing and maintaining a robust macroeconomic monitoring system. This reduces the possibility of rising inflation and economic volatility, along with other factors.

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APPENDICES

APPENDIX 1: FORMS OF QUESTIONNAIRES

**ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE
DEPARTMENT OF MARKETING MANAGEMENT**

Introduction

The purpose of this questionnaire is to collect primary data on Ethiopia's stock market's establishment. The study's goal is to fulfill a thesis requirement for Addis Ababa University's MA of Marketing Management program. Your honest replies to the questions are critical to the study's effectiveness. All information gathered through the questionnaire will be kept secret and used exclusively for the purposes of the study. As a result, I would want to express my gratitude in advance for your kind assistance.

Interview Checklist

I am Hayilemichale Birhanu Jano, a postgraduate student of Addis Ababa University's MA of Marketing Management program. I am conducting an academic research regarding challenges and opportunities of establishing a stock market in Ethiopia with particular reference to the selected business sectors

Can I proceed? Thank you!

1. What are the major determinants of establishing stock market in developing countries like Ethiopia?
2. How do you describe the current capital market (bond market) situation in Ethiopia?
3. What do you think about the establishment of stock market in Ethiopia? Is this the right time to establish it?
4. What are the roles of financial institution in establishing capital market in Ethiopia?
5. What economic advantage will be gained from capital market if we establish in future?

6. What is the existing overall PSET (Political, Social, Economic, and Technological) infrastructure capability for establishment capital market?
7. If you have anything to say about establishment of stock exchange or stock market other than the above listed issues?
8. What recommendations you forward to solve the above listed problems?

..... *Thank you for your cooperation and time in advance!!!*