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**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS & ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**PROSPECTS AND PREPARDNESS OF ESTABLISHMENT OF  
STOCK EXCHANGE MARKET IN ETHIOPIA**

**BY: Samuel Gebreyes Desta**

**Addis Ababa, Ethiopia**

**February, 2022**

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STOCK EXCHANGE MARKET IN ETHIOPIA**

**Thesis for Presented in Partial Fulfillment of the Requirements for the  
Degree of Master of Science (MSC in Accounting and Finance)**

**BY: Samuel Gebreyes Desta**

**Advisor: Alem Hagos (PhD)**

**Addis Ababa, Ethiopia**

**February, 2022**

## **Declaration**

I, the undersigned, declare that the thesis entitled “Prospects and preparedness of establishment of stock exchange market in Ethiopia” is my original work. It has not been presented for a degree in any other University and that all sources of materials used have been appropriately acknowledged.

Name Samuel Gebreyes Signature \_\_\_\_\_

Addis Ababa University

February, 2022

## **Endorsement**

This Thesis has been submitted for examination with my approval as a university research advisor.

Alem Hagos (PhD)

Advisor's Name

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Signature & date

**BOARD OF EXAMINERS APPROVAL SHEET**

**PROSPECT AND PREPARDNESS OF STOCK EXCHANGE  
MARKET IN ETHIOPIA**

BY: Samuel Gebreyes

**APPROVED BY BOARD OF EXAMINERS**

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## **ACRONYMS AND ABBREVIATIONS**

AACCSA	Addis Ababa Chamber of Commerce and Sectoral Association
AABE	Accountants and Auditors Board of Ethiopia
SE	Stock exchange
SEM	Stock Exchange Market
OTC	Over-the-counter
GDP	Gross Domestic Product
IFRS	International Financial Report Standards
IMF	International Monetary Fund
IPOs	Initial Public Offerings
NBE	National Bank of Ethiopia

## **Abstract**

*The country's economic growth can be affected by different factors, from Which Stock exchange market has an important role in terms of capital accumulation through raising huge finance in order to establish big corporations and mega projects. Hence, securities should be transferred from one to another through the stock market to enhance further investment. Moreover, the number of listed corporations, total value traded and liquidity of stock market turnover enhance the economic growth represented by real gross domestic product (GDP). This research studied Prospect and preparedness of establishment of stock exchange market in Ethiopia by analyzing the factors affecting stock market development and their importance to corporate business development as well as economic growth of the country. This research has tried to assess how the lack of a stock market affects corporate business development in Ethiopia by selecting specific business sectors on a few selected Insurance Companies. Moreover, the study is carried out utilizing a descriptive research approach and a questionnaire conducted by non-probability convenience sampling of employees from selected insurance companies and NBE, as well as qualitative and quantitative data (mixed) the study makes use of both primary and secondary data. The study has discovered the following findings: Lack of SEM makes it difficult for businesses to raise capital for expansion or further investment, discourages domestic saving, eliminates the option of using SEM as an alternative source of credit, has a negative impact on local investment and income generation from selling/buying stock, and affects skill manpower in accounting and auditing, as well as supervision and regulation. As a result, the study recommends that the government expedite the establishment of SEM, as well as intense training and the outsourcing of skilled people.*

**Key words:** stock market, market capitalization, Gross domestic product, Listed Companies.

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the study

Ethiopia has a large domestic market of over 112 million people, according to the World Bank report 2019, it is Africa's second-most populous nation after Nigeria, and has had one of the fastest-growing economies in the region over the last decade, with average annual growth rates of 9.4% per year from 2010/11 to 2019/20. Ethiopia is the second-most populous country in Africa next to Nigeria, the fastest growing country which has no stock exchange market. However; the stock exchange market has a crucial role in economic development. (<https://www.worldbank.org>)

Lack of stock market leads to lack of finance, which is the essential factors for the economic development of the country. Hence, countries like Ethiopia bank a dominant financial system. Whereby, access to finance for corporate businesses and individuals is limited by bank capacity to mobilize saving and their strict and corrupted lending policy. Thus, corporate business, as well as countries' development, is affected by the lack of stock exchange market because it is difficult to mobilize large amounts of saving for huge projects for corporate business as well as Government and the economy create an illiquid asset in absence of stock exchange market. (A.S.Kannan, & Ejigu L., 2013)

The stock exchange market is a secondary market in which securities are traded after being initially public offerings (IPOs) are made to the public in the primary market and/ or listed firms on the stock exchange are made to the public. The secondary market is where the majority of the trade takes place. A stock exchange market is important to mobilize huge capital, improve financial access to the private sector, and improve liquidity and risk-sharing in an economy. Hence, Stock markets play a vital role in a global economy where the financial markets generate finance for economic growth. Thus, this research is to focus on certain factors that can be used in the stock exchange market.

- Liquidity: the ability of stock which can be converted to ready cash for investment
- Risks sharing: By means of diversification of portfolio, investment can reduce risk.
- Mobilization of financial resource: we can mobilize financial resources in order to finance huge projects and corporation historically; Addis Ababa had opened up the

stock exchange market in the imperial generation in the early 1960s. It was brief lifespan stock market commenced informally in the late 1965 and turned into officially set up in 1963, the National Bank of Ethiopia (NBE) took the initiative to set up the share dealing group known as Addis Ababa share dealing group. The share-dealing group facilitated the operation of the shares of main banks and government bonds. The National Bank of Ethiopia (NBE) was in charge of developing rules and regulations for the market. However, in 1974 the military government came to power, declared a centrally planned command economy, and nationalized all privately-owned companies. Therefore, the infant stock exchange market ceased to exist. ([www.nbebank.com](http://www.nbebank.com))

The main purpose of this research is to identify the relationship between the stock market and economic growth in Ethiopia. In addition, how the lack of stock market affects individual firms in particular and Ethiopian Economic in general. Thus, the researcher is limited the study on five insurance companies in Ethiopia. (Mehari D. & Aemiro T., 2013), Companies with more liquid assets are less likely to fail, according to the author, because they can realize cash even in the most challenging of circumstances. As a result, it is projected that insurance companies with more liquid assets will perform better than those with a lot fewer liquid asset. Moreover, (Mehari D. & Aemiro T., 2013) cited Browne et al., (2001) explain that there is conclusive proof that an insurance company's performance is strongly tied to the share of liquid assets in its asset mix of an insurance company. More empirical findings have showed that there is a nice relationship between liquidity and financial performance of insurers (Ambrose and Carroll, 1994 and Carson and Hoyt, 1995). However, liquidity may be created if there may be an organized stock exchange in a county.

## **1.2. Statement of Problem**

The stock exchange market has an important role in mobilizing surplus funds from savers to those which have a shortage for expansion or further investments for investors that leads finally to growth in business corporate as well as economic development as a whole. Many authors argued that the stock market is an important element for economic growth; however, few studies indicate the reverse, as an example. According to (Levine & Zervos., 1996) cited Mayer (1988) and Stieglitz (1994), stock markets only promote short-term profits and ignore the long-term prospects, that's an extensive factor to economic growth and development. Whereas most

researchers propose stock market has a direct impact on economic development, such as. Bagehot (1873) and Hicks (1969) said that the industrialization in England was brought about through the development of their financial sector through the injection of people's money. Additionally, (Ross Levine & Sara Zervos, 1996), Indicated that the availability of liquidity provided with the aid of using efficient stock markets draws buyers to devote their fund into investment projects, which subsequently increase the economic growth of a country. ( Ross Levine and Sara Zervos, 1998)Additionally, argued that stock markets offer services that increase economic growth. Consequently, the Ethiopian author mentioned the stock market as follows. (A.S.Kannan, & Ejigu L., 2013) had additionally said that, .lack of finance became one of the motives for lower economic growth of least developed countries such as Ethiopia. (Abebe A., 2015) .Moreover, ( IMF Working paper;, 2007), state that, the Stock market promotes saving which provides an alternative source of finance and allows companies to acquire huge capital quickly, Which enables individuals to meet their risk preferences and liquidity needs consequently it facilitating capital allocation Investments and growth. It may be additionally one of the elements that determine the extent of economic activities in most economies.

Ethiopian authors including (Legesse, 2012), argued due to the absence of a stock market in Ethiopia there are excessive illiquid shares. These illiquidity shares could lead the existing shareholders to become frustrated and new shareholders will be discouraged to get into the share company business which in impact hinders the growth of investments in the economy. In addition (Mulatu G., 2016), Additionally, (Edosa J., 2014)admit Introducing of stock market allow the fair distribution of ownership, mobilize domestic savings, improve accounting and auditing standards, provide efficient monetary and fiscal policy tools, and support privatization efforts Subsequently according to (Mehari D. & Aemiro T., 2013)businesses with extra liquid assets are less likely to fail due to the fact they are able to realize cash even in a very difficult situation. However, most of the studies regarding stock market in Ethiopia had been conducted on the need to establish stock exchange market in Ethiopia, which did not assess how the absence of stock exchange market affect corporate business development and economy development of the country. Hence, this makes this study different from the previous studies.

According to the World Bank Ethiopia 2019, Ethiopia, the world's most populous country with over 112 million people, is the world's largest country without a stock exchange market. Even

though Ethiopia has a primary stock market, which helps to raise and mobilize capital to establish huge corporations. However, it is limited to a few sectors, such as insurance and Bank. Moreover, it has difficulties for an investor to liquidate (sell) their shares when they need the money to invest in other stock while they believe or think to have higher returns. Due to the lack of a stock exchange market, reselling securities takes a relatively long time and extra effort. Hence, the lack of a stock exchange market will deter the Investor and firms to participate in the market. So that these may not only affect the country economy to some extent but also the market economy is leading without economic principle, literally demand/supply. Therefore, this research has assessed to what extent the lack of a stock exchange market affects the development of the corporate business as well as the economic development of Ethiopia as a whole in order to show its importance for corporate business development as well as country economy growth.

### **1.3. Research Questions**

This study has focused on not only how to affect the stock exchange market individual business and the economy of the country, but also other stock exchange factors which affects the corporate business due to the lack of a stock market. Hence, the study has been conducted to address the following questions

- To what extent does the lack of stock exchange affect the corporate business and the Economy of the country as a whole?
- How absence of the stock exchange market affects domestic saving in Ethiopia?
- How lack of a stock exchange market affects Microeconomic factors in Ethiopia?
- How are the accounting and auditing practices regarding the stock market in Ethiopia?
- Is a legal and regulatory infrastructure adequate in Ethiopia to establish a stock market?

### **1.4. Objective of the study**

The main objective of this study is to analyze how absence of stock exchange market affects development in corporate business as well as growth of country economy as a whole.

### **1.5. Specific Objective**

- To identify whether there is adequate institutional and legal frame work in Ethiopia.
- To assess whether there is adequate accounting and auditing practices on stock exchange market in Ethiopia.

- To assess how lack of stock exchange market affects business to raise fund in order to expand their investment in Ethiopia.
- To assess how lack of stock exchange market affect domestic saving in Ethiopia
- To assess how lack of stock exchange market affects Micro economic factor in Ethiopia

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

This study focused on the effect of lack of stock market affect growth in an individual corporation as well as country economy as a whole in Ethiopia. Due to time and financial constraints, non-probability convenience sampling methods were used to identify the appropriate person for questioner for 25 respondents drawn from five Insurance companies and NBE. The duration of the study was limited only for one year period. The insurance companies are selected for this study are head office in Addis Ababa the study will include; Review different documents relevant for the study. Review rules and regulation by NBE regarding stock market.

## **1.7. Significance of the study**

This research will not only create awareness of companies and individual about the stock exchange market but also helps to understand how lack of a stock exchange market affect the growth of corporate Business in particular and the growth of the Ethiopian economy in general but also make familiarity with terms, institutional and legal framework regarding stock exchange market. Moreover, it will initiate others for further study.

## **1.8. Limitation of the Study**

It is newly adapted phenomena there is no sufficient studies regarding stock exchange market in Ethiopia. Thus, it is difficult to gather sufficient literature regarding secondary stock market little research is carried out regarding secondary stock market in Ethiopia and, lack of sufficient data, finance and time limitation.

## CHAPTER TWO

### 2. LITERATURE REVIEW

#### 2.1. Introduction

This chapter reviews the theoretical and empirical aspect of stock exchange market to clearly identify the benefits from stock exchange market and create awareness about stock exchange market among business people, individuals and government officials moreover, the chapter is subdivided in to two sections. The first section is the theoretical literature; it consists of the historical review and, conceptual review of stock market and its effect in an economy growth and. The second section reviews empirical of the stock market as follows.

#### 2.1.2. Theoretical Literature

This chapter outlines a comprehensive work of theoretical consideration and presents a general framework on the possible effects of stock market development on saving, Liquidity, investment, and thus economic growth, regarding the neoclassical and endogenous economic growth models, in line with the main theoretical and empirical literature on financial development, stock market, and economic growth. The financial system is grouped into two such as lenders and borrowers as well as financial intermediaries (banks, insurance firms, and pension funds) and markets (bonds and stock markets). Financial intermediaries and stock markets channel a substantial portion of an economy's savings to potential investment, providing a varied range of options with varying risk and return characteristics, as well as assisting investors in obtaining the funds they desire. A well-functioning financial system is required for a country's economy to grow since the rate of capital accumulation is one of the most important indicators of long-run economic growth, (Garcia and Liu, 1999).

Financial intermediaries help to reduce asymmetric information concerns that are inherent in the relationship between investors and entrepreneurs by lowering transaction costs for savings and investors. The creation of sophisticated derivative instruments can assist the economy in better allocating risk and increasing the efficiency of the saving-investment process, (Fischer, 2003).

The development of the stock market is a critical part of the financial system for economic progress. In theory, a well-developed stock market encourages saving and efficiently distributes financial capital to future corporate investment, resulting in enhanced economic growth. Stock



markets also aid in the mobilization of domestic savings by expanding the choice of financial instruments that depositors can use in their portfolio's diversification. (Caporale, et.al., 2004)

### **2.1.3. Stock Market role on the Financial System**

(Levine R. , 1997), explain stock market has the fundamental roles and channels through which financial markets and intermediaries are linked to economic growth, and it suggests that this can lead to increased savings and investment, which can be increased through a well-functioning financial system, and thus to economic growth.

### **2.1.4. Stock Market as a Cause of Economic Growth**

The growth of the stock market is designed to encourage people to save by giving them more instruments to meet their risk preferences and liquidity requirements. Liquid stock markets make investing less risky and more desirable. It is because they allow savers to purchase and sell shares quickly and cheaply if they need access to their portfolios. Companies, on the other hand, have continuous access to funds raised through initial public offering by enabling and making long-term investments more profitable, stock market liquidity, on the other hand, increases capital allocation and boosts long-term economic growth possibilities. (Levine, 1996).

### **2.1.5. Stock Market Development and Investment**

To make money available to investors, a country's economy must first create institutions to mobilize domestic deposits and build capital. Financial and stock markets, for example, play a crucial role in promoting or impeding the movement of domestic savings to domestic investment opportunities. As a result, determining whether a country is a beneficiary of cross-border money flows is critical, (Cavalla, 2002).

### **2.1.6. Stock Market Development and Liquidity Supply**

In the preceding sections, the effects of stock market growth on saving and investment were discussed. In this section, we'll look at stock market liquidity, according to Levine (1991),(Bencivenga et al, 1996), and (Garcia & Liu, 1999). Liquidity in the stock market reduces the disincentives to investing in long-term projects. This is as a result of the fact that investors can rapidly sell their stake in the project if they need cash before the project is

completed. As a result, more liquid stock markets make it easier to invest, increase capital allocation, and raise long-term economic growth prospects.

(Levine and Zervos, 1998a), (Arestis et.al, 2001), and (Demirgiic-Kunt and Levine, 1996), demonstrated that increasing liquidity can harm economic growth. Increased stock market liquidity may lower the savings rate by increasing investment return, and disappointed investors may find it simpler to sell immediately. This may create disincentives to exercise corporate governance, negatively impacting company finance and slowing economic growth. Or use this text to see a few of the problems that check plagiarism can detect. What do you think of grammar checkers? Please note that they are not perfect.

### **2.1.7. Determinants of Stock Market Development in Developing Countries**

According to theoretical literature, the development of stock market determinants can be roughly classified into two divisions: microeconomic factors and institutional factors. Which are theory and empirical shows how these economic factors and institutional factors can affect stock market developments:

- 1) Microeconomic factors such as real income and its growth rate encourage stock market development: the banking sector, interest rates and private capital flows may also influence stock market development. Furthermore, Inflation and the exchange rate have detrimental factors on stock market development.
- 2) Legal origin, legal protection of stockholders or individual investors as well as institutional investors, corporate governance, financial market liberalization, stock market integration, and trade openness are examples of institutional factors.

#### **1) Micro economics factors:**

##### **Inflation Rate**

The higher rate of inflation is an indicator of illiquid and smaller stock market. It is because values of consumption goods increase whenever inflation rate is high hence decrease in saving those decrease investment which lower economic development and as a result illiquid stock market and the lesser stock market performance. (Abebe, 2015) cited Yartey and Adjasi, (2007) revealed that savings determine stock market development. Moreover, (Abebe A., 2015) stated

that, according to the literature, greater inflation rates are connected with significantly less liquid and smaller stock market. And he further mentioned both domestic and foreign Investors will be hesitant to invest in the stock market if they anticipated higher inflation.

### **Interest Rate**

Interest rates are important determinant factor of financial and stock market prices. According to Cooley and Smith (1992) (as stated by (Sin-Yu, 2017) have confirmed that the level of interest price may additionally have an effect on the existence of financial markets for endogenous reasons although the formation is costless. Such a situation takes place while the real interest rate is lower than the economic growth rate in the absence of financial markets. Moreover, Sin-Yu, 2017) cited Spiro (1990), who indicates that people may prefer to deposit in banks rather than invest in stock markets when there is an increase in real interest rates

### **Exchange Rate**

Country development or the GDP has been affected by the stock exchange rate and in a similar manner, the current as well as future cash flow of the corporate companies and their stock prices have also been affected by exchange rate. Therefore, currency approbation and depreciation can have an adverse or positive effect on stock market development. While high inflation is expected whether local or foreign investors will be unwilling to invest in the stock market ( Yartey and Adjasi , 2007).

### **Foreign Direct Investment (FDI)**

Through the following channels, FDI can help to promote the development of stock markets: First, FDI may encourage firms to participate in capital markets. The reason for this is that a few overseas investors can also use external funds to fund their investment ventures. Other investors may need to increase their investment by selling securities on stock exchanges. Second, FDI can improve the liquidity of domestic stock markets by allowing foreign purchasers to buy and sell stocks or equities.. Hence, FDI can prompt stock market development by injecting capital for large projects which needs intensive capital could not be cover by domestic investor.

## **2) Institutional Factors**

Literatures display the importance of institution in development of stock market. According to La Porta et al. (1997) mentioned by (Yartey h. A., 2010) discover that institutional elements such as the rule of law, anti-director rights, and one share, one vote are significant determinants of stock market development. As a result, this study cites certain institutional determining aspects. Stock market development is influenced by rule and regulation, legal protection of investors and corporate governance, financial market liberalization, and stock market integration. This paper tries to discuss rules and regulations, legal protection of investors, and corporate governance.

### **Rule and Regulation**

Implementation of proper rule and regulation will encourage investors' confidence to invest in stock marketplace. According to (Yartey h. A., 2010) cited La Porta et al. (1997) argue that higher legal protection of shareholders' and lenders' interests will encourage the flow of investments and the provision of external finance to businesses. According to La Porta et al. (1997) moreover find out that Institutional factors such as the rule of law, anti-director rights, and one share, one vote are important determinants of share market development.

(Kumulachew T., 2011), on his research paper "Regulation of Initial Public Offering of Shares in Ethiopia: Critical Issues and Challenges" explain, that, Securities regulation established by state authorities, is used to refer the set of rules, control and process with the intention to form or prohibit certain behavior, decision-making and transactions in the public supplying of shares and securities firms. Thus, securities law is a wide concept, which encompasses the regulation and supervision of securities markets and firms. A well-functioning capital market is a sign of an economically advanced market economy. For an economy to flourish, a corporation ought to be capable of raise fund to take advantage of growth opportunities as they become available. Firms raise fund in the capital market, and for those to function properly, investors have to be able to trust the information that is released about the corporation which are using them. In the absence of this trust, the market may collapse. Investors, who are legally protected, play a key role in the development of the stock market.

## **Corporate Governance**

According to (Shleifer and Vishny, 1997) explain that there is much of the variation in corporate governance systems between countries stems from differences in the nature of the legal requirements that managers must meet in order to protect investors, as well as differences in how courts interpret and implement those duties. Different corporate governance systems will hinder the growth of foreign finance in different countries.

### **2.1.8. Stock Market Definition**

AS per (www.Investopedia.com) in definition, the stock market refers to the collection of markets and exchanges in which regular activities of buying, selling, and issuance of stocks of publicly-held corporations take place. Such financial activities are carried out via institutionalized formal exchanges or over-the-counter (OTC) marketplaces, which perform below a defined set of regulations. There can be multiple stock trading venues in a country or a region which permit transactions in shares and other forms of securities.

AS per (AACCSA, 2011), elaborate the capital market consists of the bond market for debt instruments and the stock market for equity securities. Sophisticated capital markets provide derivative financial products along with futures, options, and structured products. Capital markets can be grouped into two types: primary markets and secondary markets. Underwriting is a process used in primary markets to sell new bonds or equities to investors. Existing securities are sold and purchased in the secondary markets by investors or traders, usually on a stock exchange (SE), over-the-counter (OTC), or elsewhere.

### **2.1.9. Function of Stock Exchange**

Stock exchange a tool, which can be used to measure economic of a country. They perform several economic functions and render invaluable service to the investor, companies and to the economy as a whole. They play important role of a nation.

(Kumar, 2019)Mentioned major function of stock exchange market as follows:

#### **➤ Marketability of securities:**

Stock exchange provides a space for the purchase and sales of securities. As a result, any person holding securities can get back his money invested in the securities (shares,

debentures, government bond etc.) by selling through the broker of a stock exchange at the market price.

➤ **Liquidity to investment:**

People readily invest in the industrial securities since the money invested in them can be realized by selling them on the stock exchange. The public would not have freely invested in industry and government securities if this stock market had not existed. As a result, both the private sector and the government would have faced a capital shortfall. The stock exchange facilitates the liquidation of industrial securities and contributes to the country's industrial development.

➤ **Supply of long-term fund**

Securities trade in stock market is negotiable. They can be transferred with minimum requirement from one person to another. As a result of this facility, people readily invest in the industrial securities and companies receive a good response for their public issue of shares and debentures whenever they need funds. Thus, they are assuring availability of funds for a long term due to the existence of stock market.

➤ **Evaluation of securities**

The stock exchange keeps a record of the prices at which securities are traded and makes a public announcement of those prices. Using these prices for securities quoted in the markets, investors and speculators can assess the worth of securities they own.

➤ **Motivation for the companies for improvement in performance**

The performance of a company is reflected through the price quoted for their securities in the stock markets. With the improvement in performance of company, the price of its shares in the market increase, enhancing the good will of the company. Thus, through continual increase in productivity and profitability, Stock market indirectly motivate financial performance of companies.

➤ **Assistance of capital formation:**

The stock market ensures liquidity of industrial securities, it also ensures the appropriation of funds invested in the securities with the improvement in the performance of the companies and increase in the demand for their securities. Thus. They motivate the public to invest their savings in the capital of companies, resulting in capital formation which is essential to the economic development of a nation.

➤ **Protection of investors:**

Stock market conduct to trade in securities subject to certain rules and regulation, the rule prevents overtrading illegitimate speculations and change of excess commission on trading by the brokers in order to protect the interest of common investors, thus stock exchanges safeguard the innocent investors from the malpractice's clever brokers dealing securities. This strengthens the investors' confidence and promotes large investment.

➤ **Encouragement of savings:**

Stock exchanges provide an attractive avenue for the investors wherein they can invest their small savings in industrial securities and obtain a regular return on investment as well as capital appreciation, thus, they encourage savings habits among the public.

➤ **listing of a security:**

A stock exchange is a financial entity that lists numerous companies' securities. The stock exchange only trades listed securities. A list of securities indicates that the securities have been granted permission to trade on the stock exchange's trading floor. A company's shares or debentures can only be listed and exchanged on a stock exchange. If a corporation adheres to the exchanges established operating procedures.

➤ **Maintaining business information:**

Financial statements and other reports and declarations are needed by companies whose securities are listed on a stock exchange. The stock exchange maintains a detailed record of the various companies whose securities are traded on the floor.

➤ **Raising capital for business:**

The stock market assists joint stock companies in capitalizing by selling shares to the investing public.

Many authors state that the stock market is a crucial factor for economic growth, but few studies suggest the reverse, for instance, according to ( Levine & Zervos., 1996) cited Mayer (1988) and Stiglitz (1994), stock markets only promote short-term profits and ignore the long-term prospects, that's a significant factor to economic growth and development. Moreover, according to (Mulatu G., 2016), Cited Bhide (1994) Stock market liquidity can also have a negative impact on corporate governance since a highly liquid stock market encourages investor myopia. Investors can easily sell

their shares because they are readily available. Investors' commitment and desire to exert business control may be weakened by a more liquid stock market. To put it another way, Instant stock market liquidity may deter investors from making long-term commitments to the companies whose shares they own. And consequently, create potential company governance issues with excessive ramifications for economic growth. Whereas most researchers recommend stock market has a direct impact on economic development, such as. ( Levine & Zervos,, 1996) Mentioned Bagehot (1873) and Hicks (1969) stated that the industrialization in England was triggered through the development in their financial sector via the injection of people's money. In addition, (Legesse, 2012) Cited ( Levine & Zervos,, 1996)found that the provision of liquidity supplied through efficient stock markets attracts investors to dedicate their funds to investment projects, which, as a result, promotes the economic growth of a country.

## **2.2. Empirical Literature Review**

### **2.2.1. Global Studies**

According to (Atuilik, W. A., and Salia, H., (2018), in their study, "The Importance of Financial Reporting to Capital Market Development in Ghana." it indicates that capital market participants use corporate financial information disclosed by corporations for investment decisions, Appropriate legal and regulatory frameworks, effective securities exchange commissions, active stock exchange markets, and the availability of accurate and reliable information about firms' financial performance and position are all factors that influence capital market development in emerging markets. As a result, developing economies benefit from an improved financial reporting environment that produces accurate and high-quality financial reports on a timely basis.

The research entitled "Appraisal of the Effect of Savings on Stock Market Development in Nigeria" by (Ebele, 2016) used to conduct the research, Savings mobilization has long been seen as a critical variable for development and a key component in stock market development. Without the appropriate amount of savings, the development of an efficient and established stock market as a stimulus to economic growth in Nigeria may be unviable. The purpose of this research was to assess the influence of savings on the growth of the Nigerian stock market from 2001 to 2010. The data for the study came from the Nigerian Central Bank's statistical bulletin.



Finally, the data reveal that savings have a significant and favorable impact on stock market development in Nigeria, based on the Ordinary Least Square (OLS) regression model.

According to (Zahid et al, 2012), in their research paper "Stock market development and economic growth: A comparative study of Pakistan and Bangladesh," they investigated the impact of stock market development on economic growth in both Pakistan and Bangladesh. Empirical data reveals that Pakistan's and Bangladesh's stock markets contribute to their respective countries' economic success, according to a comparison of the stock markets and economic growth in Pakistan and Bangladesh. The findings show that stock market development and economic growth in each country have a significant positive relationship. The stock market's growth has been shown to help boost economic growth. Market capitalization has a greater impact in Pakistan, but the stock market in Bangladesh is determined to be more liquid and smaller in size, and hence has a smaller impact on economic growth.

(Josiah et al., 2012) in a paper titled "The Determinants of Stock Market Development: The Case for the Nairobi Stock Exchange," the case for the Nairobi Stock Exchange is made by using secondary data from 2005 to 2009 to analyze the elements impacting the NSE's development. According to the regression results, macroeconomic characteristics such as stock market liquidity, institutional quality, income per capita, domestic savings, and bank development are major predictors of stock market development on the Nairobi Stock Exchange, according to the regression results. Whereas there was no correlation between stock market development and macroeconomic stability, inflation and private capital flows, according to the regression study, Institutional quality, as evaluated by law and order and bureaucratic quality, democratic accountability, and the corruption index, are also significant indicators of stock market development since they improve external financial viability. This result indicates that the problem has been solved.

(Yartey, 2010) Using panel data from 42 emerging economies, he investigates the institutional and macroeconomic determinants of stock market development in 42 emerging economies from 1990 to 2004 in his paper titled "The Institutional and Macroeconomic Determinants of Stock Market Development in Emerging Economies." According to researchers, macroeconomic factors like income, gross domestic income, banking sector development, private capital flows, and stock market liquidity are important determinants of emerging country stock market

development. Because they boost the viability of foreign finance, political risk, law and order, and bureaucratic competence are all essential indicators of stock market growth. This shows that resolving political risk may be a key component in emerging stock market growth. Institutional and macroeconomic variables influence the development of stock markets in emerging economies.

### **2.2.2. Ethiopian Studies**

According to (Getachew, 2017), conducted the study "Prospects and Challenges for the Establishment of a Capital Market in Ethiopia,". The study aims to determine the function and responsibilities of financial markets, as well as the elements that influence the establishment of capital markets. The data gathered via interview, which included key respondents based on an unstructured interview, was analyzed using descriptive statistics. The information acquired from the interview and documentation was analyzed qualitatively. The study concludes that in order to start a capital market, a strong financial, economic, and technological basis must be in place.

According to the research entitle "Challenges and Prospects of Establishing Stock Market in Ethiopia" by (Mulatu G., 2016), explain how the establishment of stock markets is likely to improve economic growth by mobilizing domestic savings and increasing the amount and quality of investment.

According to (Abebe, 2015) in his paper "Is Ethiopia Ready to Institute a Stock Exchange Assessment on Establishing Stock Exchange Market in Ethiopia," Countries will benefit from the stock market by promoting saving by providing an opportunity economic vehicle for people to meet their risky options and liquidity needs, hence increasing savings in the stock market. Stock markets also sell increases at the indexed enterprise level, because the company may mobilize capital at a lower cost of capital because the risk is distributed widely in the market. As a result, a price is established. Furthermore, stock markets facilitate the adoption of liquid long-term projects through liquidity provision, as buyers in a firm can liquidate their stock balances through the stock exchange market.

According to (Edosa J., 2014), in his paper, "Legal Aspects of Stock Market Development in Ethiopia: Comments on Challenges and Prospects," he explains. The securities market facilitates de concentration of ownership, better accounting and auditing standards, effective monetary and

fiscal policy tools, and privatization efforts. Furthermore, he stated that Ethiopia's stock exchange market might contribute to economic progress by encouraging investment by assisting traders in rapidly and effectively purchasing and selling stocks.

The study conducted by (Legesse, 2012) entitled "Establishing financial markets in Ethiopia: the environmental foundation, challenges, and opportunities," state that Ethiopia's financial system is dominated by commercial banks (both private and state), with a concentration on mobilizing short-term liabilities and extending short-term loans. When it comes to project finance, these institutions have fewer resources and are less dependable. Because banks are expected to offer loans for long-term payback projects, they have limited resources to sustainably provide long-term credit to the economy. This clearly demonstrates that the country's financial system is missing a stock market.

However, most research on the stock market in Ethiopia has concentrated on the need to build a stock exchange market rather than evaluating how the lack of a stock exchange market affects corporate business development and the country's economic development. As a result, this study differs from previous studies.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1. Research design**

The purpose of a descriptive study, according to (Sekaran & Roger Bougie, 2016,) is to collect data that describes the issue of interest. Descriptive studies are frequently meant to collect data that allows for the description of a large number of qualities (such as people, firms, goods, or brands), events, or circumstances using either a quantitative or a qualitative method. In general, descriptive research assists researchers in understanding the features of a group in a specific scenario, thinking logically about parts of that condition and providing some guidance for making certain (simple) decisions.

The study is conducted to investigate how the lack of a stock exchange market affects corporate business as well as country development as a whole. Hence, this research is applying descriptive research methods which are used to analyze qualitative data collected by the study and also to describe and explain the term, and factors of the Stock exchange market by reviewing books, Journals, research papers, and rules and regulation and directives to create awareness among stakeholders: shareholders, potential investors, Individual, professionals, corporate business as well as Government. The study prefers to select insurance companies because and insurance companies have well organized management and expertise who understand stock exchange market, have better governance than other shares companies due to government has strict control over bank and insurance through National Bank of Ethiopia (NBE).

#### **Research approach**

Many social sciences, including business research, have employed a quantitative, qualitative, or mixed methodology. The quantitative approach, according to (Creswell & Wanqing Zhang, 2009), is a way of assessing objective hypotheses by looking at the relationship between variables. These variables can then be measured. Usually on instruments to allow statistical procedures to be used on numerical data and the final written report follows a predetermined format and includes an introduction. By evaluating a sample, survey research provides a quantitative or numerical description of trends, attitudes, or opinions of a population. It encompasses cross-sectional and longitudinal studies that collect data from a sample to

generalize to a population by utilizing questionnaires or structured interviews.. Also, it allows the testing of theories in statistical numbers, with built-in safeguards against bias.

### **3.2. Population and Sampling**

Currently Shares are traded in order to establish a new corporate business by offering shares through initial public offerings (IPOs) in the primary market by opening temporary offices for a fixed short period. Mostly, banks and insurance companies have been established predominantly through initial public offerings (IPOs). Therefore, the study prefers to conduct on five selected insurance companies because banks and insurance companies have well-organized management and expertise that have understood the stock exchange market, have better corporate governance than others. Moreover, the government has strict control over banks and insurance by rules and regulations imposed by the national bank of Ethiopia (NBE). Hence, this study has focused on a few selected insurance companies and NBE due to financial and time constraints.

This research has applied descriptive research design a questionnaire conducted by sampling technique by non-probability convenience sampling technique by selecting employees, on the base of the relevance or importance of the study, that are working at Head office of and branch the selected insurance companies and national bank of Ethiopia (NBE) and reviewing documents available in NBE and Accounting and Auditing Board of Ethiopia (AABE) and all the necessary information from books, research papers, and articles.

#### **Data analysis**

In this study, the researcher assessed how the lack of stock market affects corporate business development by analyzing factors affecting stock market. Therefore, data gathered from responded has analyzed using percentage and frequency statistics using (SPSS).

## CHAPTER FOUR

### 4.1. Data Presentation and Analysis

This chapter presents data collected through survey questionnaires and interviews, by selected individuals expected to have know-how and expertise and the analysis based on the data collected. The responses are presented and analyzed to address the questions raised in the study and meet the objectives of the study- how the absence of a stock exchange market affect development in corporate business as well as the growth of the country economy as a whole.

**Table 6.1. Demographic characteristics of respondent**

Category	Item	Frequency	Percent
Gender	Male	14	56%
	female	11	44%
	Total	25	100%
Academic Level	Degree	17	68%
	Masters	8	32%
	Total	25	100%
Experience	1-3 years	2	8%
	3-5 years	7	28%
	5-10 years	10	40%
	10- 20	6	24%
	>20	-	-
	Total	25	100%

Survey data 2021, using excel

## **RESULTS OF THE SURVEY**

Respondent Rate a total of 25 questionnaires was distributed to the insurance manager, share administrator, senior finance officers, and senior researchers. From the total number, 25 questionnaires have been distributed from which a total of 25 have responded with their valuable comments and feedback.

A response was obtained from a selected insurance company as well as the Ethiopian National Bank. The study focused on both educational background and experience:

### **Gender:**

14 respondents (56%) are male and, 11 respondents (44%) female.

### **Academic Level:**

17 respondents (68%) have BA Degree and, 8 respondents (32%) have MA/MSc Degree and have Business education back ground such economics, accounting and marketing. This suggests that all of the respondents have concept and knowledge about the stock exchange market, and that the respondents supply relevant and reliable information that can be considered reliable and relevant for the study, based on their responses. Hence the findings suggest that the majority of the respondents had appropriate knowledge, experience and have concept and knowledge about stock exchange.

### **Years of Experience in Industry:**

2 respondents (8 percent) had been in the industry for 1-3years, 7 respondents (28 percent) had been in the industry 3-5f years, 10 respondents (40 percent) had been in the industry for 5-10 years, and 6 respondents (24 percent) had been in the industry for 10-20 years.

The first and second part of the questioners is personal information and general information which are advantages of stock exchange market. The information is used to assess the impact absence of stock exchange market on saving, raising capital startups companies and the development of private sector, liquidity, local investment. Company profit from buying/selling stock on insurance industry in particular, its usefulness of raising fund for expansion of investment and to assess their adequate number of to be listed for SEM and to assess government commitment on establishing Government on establishment of Stock exchange market in Ethiopia

Third part of the questioners is used to assess institutional factors and microeconomic factors which are affected by absence of stock exchange market; micro economic factors lack of stock

exchange affect FDI. Means of raising capital for investment, is it an alternative source of finance for long term investment. And institutional factors that affected by lack of stock exchange market in Ethiopia ; there rule and regulation regarding SEM , there is enough public traded corporation to create SEM, there supervisory and regulatory institution regarding SEM which protect investors, there is sufficient & capable personnel to regulate SEM, adequacy of market infrastructure for SEM including institution and system which support securities and custody transaction, there are enough skilled people to promote SEM and there public aberrance and trust share business in Ethiopia.

The fourth part is regarding Accounting and Auditing practices: in Ethiopia: to assess there is appropriate accounting and auditing expertise and experience to implement stock exchange market in Ethiopia.

### 1. Institutional and Microeconomic factors

Institutional determinants include legal frameworks and property rights protection, as well as variables that represent the state of regulatory and supervisory agencies.

**Table 1.1.**Lack of a stock exchange market has an impact on your company's ability to raise money by selling to meet NBE capital requirements.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	11	44.0	44.0	44.0
	Disagree	2	8.0	8.0	52.0
	Neutral	4	16.0	16.0	68.0
	Strongly Agree	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

Lack of stock market affects the company ability to raise capital to meet NBE capital requirement.

Lack of SEM affects companies fulfilling the capital requirement which is limited on the bank loan and internal source. Hence lack of SEM will affect the company’s development which is



limited by internal sources for expansion and further investment Thus NBE compels the insurance and banks to fulfill some required amount to a specific period of time so that companies attempt to meet the required amount to the time frame set by NBE. The purpose of this question is to know the problem they face

According to the responses, 76 percent of respondents agreed that lack of SEM affects the company's ability to raise capital to fulfill the NBE requirement.

**Table1.2.** Impact on company's profit as a result of selling/buying transactions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	15	60.0	60.0	60.0
	Disagree	1	4.0	4.0	64.0
	Neutral	5	20.0	20.0	84.0
	Strongly Agree	4	16.0	16.0	100.0
	Total	25	100.0	100.0	

Lack of stock market impact on profit of the company as a result of selling and buying transaction.

Stock exchange markets can provide access to the market allowing anyone to earn from selling and purchasing stocks. In the Ethiopian case, there is no SEM that can have an impact on their profit to some extent.

According to the responses, 76 percent of respondents agreed that lack of SEM affect the company making a profit from selling and buying stock transaction.

**Table 1.3. Have a significant role in the insurance industry's company growth.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	17	68.0	68.0	68.0
	Neutral	3	12.0	12.0	80.0
	Strongly Agree	5	20.0	20.0	100.0
	Total	25	100.0	100.0	

Lack of stock market has a significant role in the insurance company growth.

By investing the excess cash used to invest and create income from selling and buying shares in the stock exchange market to make a profit, the stock exchange market provides access to the insurance sector. As a result, the absence of a stock exchange market has an impact on the industry's growth.

According to the responses, 88 percent of respondents agreed that lack of SEM has a significant role in insurance industry development.

**Table 1.4.availability of Adequate number of shares companies**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	13	52.0	52.0	52.0
	Disagree	5	20.0	20.0	72.0
	Neutral	6	24.0	24.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

An adequate number of shares companies is available to participate in the stock exchange market in Ethiopia. this question is to answer is SEM in Ethiopia not yet established because of the shortage of companies to be listed in SME? Because the number of publicly traded firms has a significant impact on SEM

Based on the responses, 56 percent of respondents believed that Ethiopia should have a sufficient number of publicly traded companies listed on the SEM. As a result, there is no restriction to the number of companies that can engage in SEM in Ethiopia.

**Table 1.5. Useful way for raise funds for expansion or further investments**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	18	72.0	72.0	72.0
	Neutral	1	4.0	4.0	76.0
	Strongly Agree	6	24.0	24.0	100.0
	Total	25	100.0	100.0	

SEM would be a useful way for existing enterprises and the private sector to raise funds for expansion or further investments Stock exchange market is an alternate means of channeling domestic savings to raise capital for a different purpose for expansion and further investment.

Based on the responses 96 percent of the respondents agreed that SEM is a useful way for existing enterprises and the private sector to raise funds for expansion or further investments.

**Table 1.6. Ethiopian government is reluctant to establish a stock exchange market**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	11	44.0	44.0	44.0
	Disagree	2	8.0	8.0	52.0
	Neutral	8	32.0	32.0	84.0
	Strongly-Disagree	1	4.0	4.0	88.0
	Strongly Agree	3	12.0	12.0	100.0
	Total	25	100.0	100.0	

According to the results, 52 percent of the respondents agreed that Ethiopian government reluctant in establishing SEM. even though the establishment of SEM is in the process it takes a long period which affects the companies the benefit enjoyed from the market.

**Table 1.7. There is rule and regulation regarding stock exchange market in Ethiopia.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	8	32.0	32.0	32.0
	Disagree	11	44.0	44.0	76.0
	Neutral	4	16.0	16.0	92.0
	Strongly-Disagree	1	4.0	4.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

The purpose of this section's research is to assess the availability of rules and regulations regarding the stock exchange market in Ethiopia. Organized and effective Rule and regulation are important because it protects the investor's right and increase their confidence in participating in the Stock exchange market The NBE approves the capital market regulation proclamation number. 1248/2021 for the establishment of a capital market and issues orders to do so. Before the end of 2021, the Ethiopian Capital Market Authority (ECMA) is planned to open for operation. Hence laying the foundation for the much-anticipated securities exchange to open in 2022, (June, 2021, NBE Report).

The legal and regulatory structure of a stock exchange market is concerned with investor protection, market efficiency, and risk reduction. Based on respondent that responses 44 percent disagree and 36 percent agree that there is rule and regulation regarding the stock exchange market in Ethiopia?

**Table 1.8. There is enough publicly traded corporations to create a stock market**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	9	36.0	36.0	36.0
	Disagree	8	32.0	32.0	68.0
	Neutral	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

The SEM requires a sufficient number of publicly traded corporations. As a result, in order to determine the availability of trade corporations in Ethiopia for the prospected Stock market. According to the responses, 68 percent of respondents agreed that Ethiopia had enough publicly traded firms to establish a stock market.

**Table 1.9. There is supervisory and regulatory institution**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	12.0	12.0	12.0
	Disagree	5	20.0	20.0	32.0
	Neutral	17	68.0	68.0	100.0
	Total	25	100.0	100.0	

The stock exchange market requires a supervisory and regulatory institution, which Ethiopia now lacks. As a result, the NBE has issued Directives to establish the supervisory and regulatory institution.

According to the respondent 68 percent is of the population is neutral. 12percent agree and 20 percent disagree hence. Hence the result indicates that there is no supervisory and regulatory authority. The NBE is currently working on establishing the institution.

**Table 1. 10.** NBE have sufficient personnel with the necessary capabilities to regulate and monitor The SEM

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	2	8.0	8.0	8.0
	Disagree	11	44.0	44.0	52.0
	Neutral	11	44.0	44.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

This question is posed to the respondent in order for them to assess the NBE's capacity, as well as whether or not they have the necessary training and knowledge to regulate and monitor the SEM. According to the respondents, 44% disagree, 44% are neutral, and 12% agree. As a result,

the respondents do not believe NBE has sufficient expertise. Despite the fact that an NBE respondent stated that it is a newly adapted practice, which has no sufficient personnel with the necessary capabilities to regulate and monitor the SEM.

According to (Ephrem, 2020), who quoted IMF.2007, Supervisory ability the regulation and supervision of the financial system have a considerable impact on its stability and the range of services it provides. Typically, regulation and supervision are designed to protect investors from potentially opportunistic insider behavior. Investor protection helps resolve agency problems and information asymmetry generated by inside information. This allows for better decision-making, more external financing, and more productive investment, which leads to stronger company growth.

**Table 1.11. Ethiopia have adequate market infrastructure for SEM**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	1	4.0	4.0	4.0
	Disagree	16	64.0	64.0	68.0
	Neutral	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

This is to find an answer to how adequate the market infrastructure for SEM. According to the responses, 64% of respondents disagree that there is no adequate SEM infrastructure in Ethiopia.

Because some markets require more developed financial infrastructure and legal protection to thrive, local capital market development requires time and proper planning (Laeven, 2014)

**Table 1.12. There are enough skilled people to promote the stock market**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	1	4.0	4.0	4.0
	Disagree	12	48.0	48.0	52.0
	Neutral	11	44.0	44.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

Skilled people are required to promote SEM because in not only required theoretical knowledge but also require practical skills, unfortunately, there is no SEM in Ethiopia it is difficult to get locally but the country can outsource from abroad especially Ethiopian diaspora to organize and train the people to meet the country needs.

According to the responses, 48 percent of respondents disagree and 8% agree that skilled people exist in Ethiopia to promote SEM.

Lack of SEM affects country skill manpower. Hence lack of SEM will affect the country not only in terms of capital but also skilled manpower. the country's skilled manpower also affects business as well as the country's economy.



**Table 1.13. Lack of public trust on share business in Ethiopia**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	5	20.0	20.0	20.0
	Disagree	5	20.0	20.0	40.0
	Neutral	14	56.0	56.0	96.0
	Strongly-Disagree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

According to the results, 56 percent are neutral, and almost agree and disagree are equal at 24 and 20 percent for the question. Lack of public trust on share business in Ethiopia hence the public trust Share business in Ethiopia is in question.

After all, any firm that lacks public trust will eventually fail. As a result, the country must train the business community to encourage them to raise public awareness and disclose facts.

### **Accounting and auditing Practices**

**Table 2.1. There is appropriate accounting and auditing expertise and experience for SE**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	12.0	12.0	12.0
	Disagree	7	28.0	28.0	40.0
	Neutral	14	56.0	56.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

Based on the responses 56 percent is neutral and agree and disagree 16 & 28 percent respectively for respond for the question There is appropriate accounting and there is appropriate accounting and auditing expertise and experience for SEM.

Even though Accountant and auditors have at least basic knowledge which is given by in universities for second degree about the capital market, Due to volatile nature and the new adapted phenomena that may require intensive on-the-job training. As a result, Ethiopia's stock exchange industry would face a shortage of qualified and skilled accounting and auditing expertise and experience.

Accounting and auditing standards are improved using SEM. To make investment decisions, securities buyers rely in part on corporate information supplied in financial reports. Increased reporting standards and criteria are frequently accompanied by the development of securities markets, which add to the efficiency of the markets and their mobilizing and allocating functions (AACCSA, 2011).

To regulate the Establishment and Determination of Procedures of Ethiopia's Accounting and Auditing Board, the Ethiopian government issued Regulation No.332/2014, Federal Negarit Gazette No.22, and January 14, 2015. The goal of the regulation is to encourage auditors and accountants to deliver high-quality financial statements and related information for reporting businesses that meet the highest 45 professional standards. The rule's principal purpose is to assure the quality of accounting and auditing services and to grow the accounting profession in the public interest while preserving the professional independence of accountants and auditors.

The Ethiopian government issued Financial Reporting Proclamation No. 8471/2014 December 2014 Federal Negarit Gazette No.81, which requires every corporate organization to prepare financial statements in line with International Financial Reporting Standards (IFRS).

## Micro economic factors

**Table 3.1. The absence of Stock market could have a negative impact on local investments**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	15	60.0	60.0	60.0
	Disagree	2	8.0	8.0	68.0
	Neutral	1	4.0	4.0	72.0
	Strongly Agree	7	28.0	28.0	100.0
	Total	25	100.0	100.0	

The absence of stock market could have a negative impact on local investments.

According to the responses, 88 percent agree that the absence of the stock market could have a negative impact on local investment.

The absence of SEM will have an impact on the country's local investments. Local individual investors and institutional investors can invest surplus cash in the stock market instead of depositing in a bank. As result, the lack of a stock exchange has a negative effect on local investment.

SEM provides opportunities for small investors to invest. Unlike other businesses that demand a substantial initial investment, investing in shares is accessible to both large and small investors since each person purchases the number of shares that he or she can afford. As a result, the stock exchange provides small savers with an additional source of income. (Tessema, 2003).

**Table 3.2. Lack of stock exchange market affects foreign direct investment (FDI).**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	18	72.0	72.0	72.0
	Neutral	1	4.0	4.0	76.0
	Strongly Agree	6	24.0	24.0	100.0
	Total	25	100.0	100.0	

According to the responses, 96 percent of respondents agree that the lack of a stock market has an impact on FDI.

Foreign capital inflows help a country's economy grow and flourish by minimizing and compensating the negative consequences of poor domestic saving and investment. As a result, more FDI has a positive impact on stock market liquidity. As a result of the lack of a stock exchange market, corporate businesses will be affected by a lack of funding, which may be complemented by FDI in the form of expansion or further investment.

**Table 3.3.** capital market would be a good means to raise capital for expansion or further investments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	21	84.0	84.0	84.0
	Strongly Agree	4	16.0	16.0	100.0
	Total	25	100.0	100.0	

According to the responses, 100% of respondents agree that the capital market would be a good means to raise capital for expansion or further investment.

Capital market can play a crucial role by creating a medium for investors raising capital through equity or debt financing by issuing shares or bond through capital market to the public.

**Table 4.1.** The absence of a stock market has an impact on domestic savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	13	52.0	52.0	52.0
	Disagree	1	4.0	4.0	56.0
	Neutral	3	12.0	12.0	68.0
	Strongly Agree	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

According to the responses, 84 percent of the respondents agree that the absence of SEM has an impact on domestic saving.

Because it is difficult to resell shares to recover the money invested in the stock market when you need the money for additional investment or consumption absence of SEM, the lack of a stock market discourages domestic saving. Investors are discouraged from investing in the stock market, which will discourage saving because the country is dependent on its saving on bank deposits that will reduce the saving ability of the country.

**Table 5.1.** Lack of stock exchange market affect stock market liquidity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	13	52.0	52.0	52.0
	Neutral	4	16.0	16.0	68.0
	Strongly Agree	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

According to the responses, 84 percent of the respondents agree that Lack of stock exchange market affect stock market liquidity

Due to the lack of a stock exchange in Ethiopia, shares are illiquid and difficult to convert to cash when an investor requires cash for a specific purpose, such as investing or making profiting from stock transactions. As a result, illiquid stocks have an impact on investment, as well as corporate and country economic development.

According to (Edosa J., 2014), the lack of a stock market in Ethiopia may lead to asset illiquidity, as stockholders may find it difficult to sell their holdings at a fair market price. Due to the fact that Ethiopian investors only have a tiny fraction of their household income to invest, fair-priced stock trading is critical to avoid systematic losses for the general population. As a result, in order to ensure the liquidity of Ethiop.

**Table 5.2.** Capital market is an alternative source of finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		1	4.0	4.0	4.0
	Agree	16	64.0	64.0	68.0
	Neutral	1	4.0	4.0	72.0
	Strongly Agree	7	28.0	28.0	100.0
	Total	25	100.0	100.0	

According to the responses, 92 percent of the respondents agree that the capital market is an alternate source of finance.

The capital market is utilized as a source of funding, which might be debt or equity financing. As a result, countries like Ethiopia rely heavily on banks for financing the project. The capital market should be an alternate source of credit for companies looking to fund huge investments that exceed bank capabilities capacity.

## CHAPTER FIVE

### 5. CONCLUSION AND RECOMMENDATION

#### 5.1. Conclusion

The survey results and evaluation of empirical research and analysis of a number of the qualitative aspects of stock markets show the subsequent major advantages of stock exchange markets:

- Shareholders generally face troubles in getting the buyers for their stocks at a fair price and in-time. This incapacity will make stocks illiquid, which will consequently have an effect on the public's perception toward buying of stocks. If individual traders are affected, then businesses could have trouble in raising capital via issuance of stocks to the public. A properly regulated stock exchange market will offer ready market wherein investors should easily purchase and sell their stocks, thereby rendering liquidity to shares of companies, therefore supporting both investors and corporations of their financing needs.
- Absence of stock market results in lack of finance that is main cause of economic development of the country. Hence countries like Ethiopia bank dominated financial system where through access to finance to company companies. Government and individual is constrained through bank ability to mobilize saving and their conservative lending policies. Thus. Corporate business in addition to countries is laid low with lack of stock exchange market because of inadequate of saving mobilization for huge project.
- Lack of stock market has additionally adverse effect in attracting foreign direct investment (FDI). Because foreign investors need to diversify their investment throughout countries. Subsequently Ethiopia has missed this opportunity because of absence of Stock exchange market in Ethiopia.
- Lack of stock exchange market have an effect on a new emerging corporation due to the fact the source of finance is relies on internal source (retaining earnings) and bank loans. Hence new emerging corporations could have little in retaining earnings and lower in borrowing ability due to the fact bank require collaterals to finance. Hence lack of stock exchange market company expansion and growth.

- The NBE approves the capital market regulation proclamation number. 1248/2021 for the establishment of a capital market and issues orders to do so. Hence Before the end of 2021, the Ethiopian Capital Market Authority (ECMA) is planned to open for operation, laying the foundation for the much-anticipated securities exchange to open in 2022. (June, 2021, NBE Report
- Lack of stock market affects the firms to raise a huge amount of capital for diversification or internal expansion. for instance, the respondent reveals that the insurance companies are having difficulties meeting the NBE's capital requirements.
- Stock exchange markets can provide access to the market allowing anyone to earn from selling and purchasing stocks. In the Ethiopian case, there is no SEM that can have an impact on their profit to some extent.
- By investing the excess cash used to invest and create income from selling and buying shares in the stock exchange market to make a profit, the stock exchange market provides access to the insurance sector. As a result, the absence of a stock exchange market has an impact on the industry's growth.
- An adequate number of shares companies are available to participate in the stock exchange market in Ethiopia.
- The respondents confirm that their sufficient public traded companies to establish SEM
- . Despite the fact that an NBE respondent stated that it is newly adapted practices, the NBE has no sufficient personnel with the necessary capabilities to regulate and monitor The SEM. therefore, lack of SEM will affect the country not only in terms of capital but also skilled manpower. The country's skilled manpower also affects business as well as the country's economy.
- The respondent responds that there is lack of public trust on share business. Thus, any firm that lacks public trust will eventually fail. As a result, the country must train the business community to encourage them to raise public awareness and disclose facts
- Even though Accountant and auditors have at least basic knowledge which is given by in universities for second degree about the capital market, Due to volatile nature and the new adapted phenomena that may require intensive on-the-job training. As a result, Ethiopia's stock exchange industry would face a shortage of qualified and skilled accounting and auditing expertise and experience.



- The absence of SEM will have an impact on the country's local investments. Local individual investors and institutional investors can invest surplus cash in the stock market instead of depositing in a bank. As result, the lack of a stock exchange has a negative effect on local investment.
- Capital market can play a crucial role by creating a medium for investors raising capital through equity or debt financing by issuing shares or bond through capital market to the public
- The lack of a stock market discourages domestic saving. Investors are discouraged from investing in the stock market, which will discourage saving because the country is dependent on its saving on bank deposits that will reduce the saving ability of the country
- Due to the lack of a stock exchange in Ethiopia, shares are illiquid and difficult to convert to cash when an investor requires cash for a specific purpose, such as investing or making profiting from stock transactions. As a result, illiquid stocks have an impact on investment, as well as corporate and country economic development.
- The capital market should be an alternate source of credit for companies looking to fund huge investments that exceed bank capabilities capacity

## 5.2. Recommendation

- Political instability, war, and inflation rate all have an impact on SEM development.  
Although the government has made certain steps, such as issuing a proclamation on the stock market and issuing directives from the NBE, it is still too late, and the government should speed up the establishment of a capital market.
- The government has taken steps to strengthen accounting and auditing practices, such as establishing AABE and issuing an IFRS proclamation. However, the research survey indicates that there is a knowledge gap, even if accountants and auditors have basic knowledge of capital markets, due to newly adapted phenomena, the market will face inadequacy of expertise and skill manpower in this area, so the market will need to outsource expertise (either Ethiopian diaspora or expatriates) to train and organize capital markets, which requires skill, which we unfortunately lack due to the lack of SEM in Ethiopia.

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**APPENDIX**  
**Appendix 1 – Questionnaire**  
**Addis Ababa University**  
**College of Business and Economics**  
**Department of Accounting and Finance**  
**Post Graduate Students**  
**Questionnaire**

Dear respondents, I Samuel Gebreyes is currently undertaking a thesis entitled “**PROSPECT AND PREPARDNESS OF ESTABLISHMENT OF STOCK EXCHANGE MARKET IN ETHIOPIA**” for partial fulfillment of MSC program in Accounting and Finance at Addis Ababa University. The main purpose of this research is to identify how the absence of stock market affects corporate business growth and economic growth in Ethiopia. Thus, to determine how the lack of stock market affect corporate business in particular and Ethiopian Economic in general. The findings of this study will create awareness on companies, business community and government officials about stock exchange market which helps to understand haw lack of stock exchange market affect the growth of corporate Business in particular and the growth of Ethiopian economy in general.

I would like to say thank you for your cooperation and willingness to sacrifice your precious time to respond to the questionnaire. The successful completion of this study is highly dependent on your participation. I kindly request you to take time and carefully attempt all the questions in your own opinion and know how. I want to make you sure that your responses will not be used for other purposes other than for research, and it will remain confidential.

Regards,

Samuel Gebreyes

**Addis Ababa University**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**Post Graduate Students**

**QUESTIONNAIRE:**

**GENERAL INSTRUCTIONS**

- No need of writing your name.
- Write your answer in case of open questions.
- Put “√” under the column of your opinion in case of scale question.

**Part one:**

**General information**

1. Name of your organization .....
2. Your position in the organization .....
3. Educational background .....

PHD           

MSC /MBA   

BA           

Other qualification: please specify .....

4. Work experience

1- 3 years     3-5 years     5-10 years     10-20 years  > 20 years

**Part two:**

**General**

1. The absence of a stock market has an impact on domestic savings.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

2. Capital market would be a good means to raise capital for new emerging companies and the development of private sector.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree



3. Lack of stock exchange market affect stock market liquidity?

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

4. The absence of a stock market could have a negative impact on local investments.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

5. lack of a stock exchange market has an impact on your company's ability to raise money by selling on the stock exchange to meet National Bank of Ethiopia (NBE) capital requirements.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

6. Lack of a stock exchange market has an impact on your company's profit as a result of selling/buying transactions on the stock exchange.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

7. The stock exchange market can play a significant role in the insurance industry's company growth.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

8. Adequate number of shares companies is available to participate in the stock exchange market in Ethiopia.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

9. capital market would be a useful way for existing enterprises and the private sector to raise funds for expansion or further investments.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

10. Do you believe the Ethiopian government is reluctant to establish a stock exchange market.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

### **Part Three:**

#### **Factor Affecting Stock Market**

##### **3.1) Micro economics factors:**

11. Lack of stock exchange market affect foreign direct investment (FDI).

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

12. capital market would be a good means to raise capital for expansion or further investments for already established companies and the development of private sector.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

13. capital market is an alternative source of finance for long term investment.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

### **3.2) Institutional Factors**

14. there is rule and regulation regarding stock exchange market in Ethiopia.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

15. Enough publicly traded corporations to create a stock market.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

16. There is supervisory and regulatory institution regarding stock exchange market which protect investors in Ethiopia

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

If strongly agree or agree how?

17. Ethiopia's National Bank has sufficient personnel with the necessary capabilities to regulate and monitor the stock exchange market.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

If strongly agree or agree how?

18. Does Ethiopia have adequate market infrastructure for stock exchange market, including institutions and systems that support securities transaction and custody.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

19. There are enough skilled people to promote the stock market.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

20. There is Lack of public trust on share business in Ethiopia

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

### **4) Accounting and Auditing practices:**

22. There is appropriate accounting and auditing expertise and experience. to implement stock exchange market Ethiopia's

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

## Appendix 2

### Notes

Output Created		27-NOV-2021 12:50:02
Comments		
Input	Active Dataset	DataSet2
	Filter	<none>
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Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on all cases with valid data.

## Frequency Table

**Table1.1.ability to raise money by selling to meet NBE capital requirements.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	11	44.0	44.0	44.0
	Disagree	2	8.0	8.0	52.0
	Neutral	4	16.0	16.0	68.0
	Strongly Agree	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

**Table 1.2. impact on company's profit as a result of selling/buying transactions**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	15	60.0	60.0	60.0
	Disagree	1	4.0	4.0	64.0
	Neutral	5	20.0	20.0	84.0
	Strongly Agree	4	16.0	16.0	100.0
	Total	25	100.0	100.0	

**Table 1.3. play a significant role in the insurance industry's company growth.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	17	68.0	68.0	68.0
	Neutral	3	12.0	12.0	80.0
	Strongly Agree	5	20.0	20.0	100.0
	Total	25	100.0	100.0	

**Table 1.4.availability of Adequate number of shares companies**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	13	52.0	52.0	52.0
	Disagree	5	20.0	20.0	72.0
	Neutral	6	24.0	24.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

**Table 1.5. Useful way for raise funds for expansion or further investments**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	18	72.0	72.0	72.0
	Neutral	1	4.0	4.0	76.0
	Strongly Agree	6	24.0	24.0	100.0
	Total	25	100.0	100.0	

**Table 1.6. Ethiopian government is reluctant to establish a stock exchange market**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	11	44.0	44.0	44.0
	Disagree	2	8.0	8.0	52.0
	Neutral	8	32.0	32.0	84.0
	Strongly-Disagree	1	4.0	4.0	88.0
	Strongly Agree	3	12.0	12.0	100.0
	Total	25	100.0	100.0	

**Table 1.7. There is rule and regulation regarding stock exchange market in Ethiopia.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	8	32.0	32.0	32.0
	Disagree	11	44.0	44.0	76.0
	Neutral	4	16.0	16.0	92.0
	Strongly-Disagree	1	4.0	4.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

**Table 1.8. There is enough publicly traded corporations to create a stock market**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	9	36.0	36.0	36.0
	Disagree	8	32.0	32.0	68.0
	Neutral	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

**Table 1.9. There is supervisory and regulatory institution**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	12.0	12.0	12.0
	Disagree	5	20.0	20.0	32.0
	Neutral	17	68.0	68.0	100.0
	Total	25	100.0	100.0	

**Table 1.10. ENB have sufficient personnel with the necessary capabilities to regulate and monitor the SEM**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	2	8.0	8.0	8.0
	Disagree	11	44.0	44.0	52.0
	Neutral	11	44.0	44.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

**Table 1.11. Ethiopia has adequate market infrastructure for SEM**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	1	4.0	4.0	4.0
	Disagree	16	64.0	64.0	68.0
	Neutral	8	32.0	32.0	100.0
	Total	25	100.0	100.0	



**Table 1.12. There are enough skilled people to promote the stock market**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	1	4.0	4.0	4.0
	Disagree	12	48.0	48.0	52.0
	Neutral	11	44.0	44.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

**Table 1.13. Lack of public trust on share business in Ethiopia**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	5	20.0	20.0	20.0
	Disagree	5	20.0	20.0	40.0
	Neutral	14	56.0	56.0	96.0
	Strongly-Disagree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

**Table 2.1. There is appropriate accounting and auditing expertise and experience for SE**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	12.0	12.0	12.0
	Disagree	7	28.0	28.0	40.0
	Neutral	14	56.0	56.0	96.0
	Strongly Agree	1	4.0	4.0	100.0
	Total	25	100.0	100.0	

**Table 3.1. The absence of Stock market could have a negative impact on local investments**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	15	60.0	60.0	60.0
	Disagree	2	8.0	8.0	68.0
	Neutral	1	4.0	4.0	72.0
	Strongly Agree	7	28.0	28.0	100.0
	Total	25	100.0	100.0	

**Table 3. 2. Affect foreign direct investment (FDI).**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	18	72.0	72.0	72.0
	Neutral	1	4.0	4.0	76.0
	Strongly Agree	6	24.0	24.0	100.0
	Total	25	100.0	100.0	

**Table 3.3. A good means to raise capital for expansion or further investments**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	21	84.0	84.0	84.0
	Strongly Agree	4	16.0	16.0	100.0
	Total	25	100.0	100.0	

**Table 4. 1. Impact on domestic savings**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	13	52.0	52.0	52.0
	Disagree	1	4.0	4.0	56.0
	Neutral	3	12.0	12.0	68.0
	Strongly Agree	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

**Table 5.1. SEM affect stock market liquidity**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	13	52.0	52.0	52.0
	Neutral	4	16.0	16.0	68.0
	Strongly Agree	8	32.0	32.0	100.0
	Total	25	100.0	100.0	

**Table 5.2. Capital market is an alternative source of finance**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4.0	4.0	4.0
Agree	16	64.0	64.0	68.0
Neutral	1	4.0	4.0	72.0
Strongly Agree	7	28.0	28.0	100.0
Total	25	100.0	100.0	

