



PROSPECT AND CHALLENGES OF ESTABLISHMENT OF CAPITAL MARKET IN

ETHIOPIA

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SCHOOL OF GRADUATE STUDIES

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SGS/0147/2013B

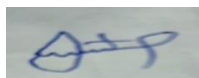
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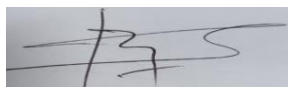
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I, **Dawit Mulate Taye**, registration number / **SGS/0147/2013B**, do hereby declare that this thesis is my original work and that it has not been submitted partially or in full by any other person for an award of degree in any other university /institution.

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ENDORSEMENT

The undersigned certify that they have read and heard by recommendation to St. Mary's University to accept the Thesis submitted by **Dawit Mulate Taye** and Prospect and Challenges of Establishment of Capital Market in Ethiopia, in partial fulfilment of the requirements for the award of Master degree in Accounting and Finance.

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LIST OF ACRONYMS/ABBREVIATION

CMPIT Capital Market Place and Intermediation

ECMA Ethiopian Capital Market Authority

ESX Ethiopian Securities Exchange

FRA Egyptian Financial Regulatory Authority

KSE Khartoum Stock Exchange

LSE Lagos Stock Exchange

ABSTRACT

The study examines the prospects and challenges of establishing a capital market in Ethiopia, using a descriptive research design that combines semi-structured questioner and thematic analysis of secondary data. The sample size consists of 15 participants, selected through purposive sampling. The study identifies several challenges hindering the establishment of a capital market in Ethiopia, including inadequate regulatory framework, lack of investor awareness and education, political instability, insufficient government support, and limited access to technology, information availability, corporate governance practices, and a lack of trust in the financial system. Additionally, the study highlights the importance of addressing limitations in financial infrastructure, with a strong consensus among respondents that the government's role in reforming financial infrastructure is critical. Public-private partnerships are also seen as a viable solution to address infrastructure gaps. Overall, the study provides valuable insights into the potential benefits and challenges associated with establishing a capital market in Ethiopia, and highlight the need for a comprehensive approach to address the identified challenges and create a conducive environment for a thriving capital market.

Key words: *Capital market, Investor awareness and education, Political instability, financial system trust*

CHAPTER ONE

1 INTRODUCTION

1.1 Background of the Study

The background of the study for "Prospect and Challenges of Establishment of Capital Market in Ethiopia" involves examining the economic environment, government policies, and the current state of the financial sector in Ethiopia. The country has experienced significant economic growth and development in recent years, making it an ideal candidate for establishing a capital market (Asare, 2020; Aboma & Kassahun, 2017).

Ethiopia has experienced substantial economic growth and development over the past two decades, with an average annual real GDP growth rate of 9.8% (World Bank, 2020). This growth has created a promising environment for the establishment of a capital market, as it indicates a strong and expanding economy that is capable of supporting such a market (Molla, 2014; Alemayehu & Bayou, 2018)

The government of Ethiopia has also shown interest in establishing a capital market. In 2021, the National Bank of Ethiopia issued the Capital Markets Proclamation No. 1248/2021, which provides a legal framework for the establishment and regulation of capital markets in the country (World Bank, 2021). Additionally, the government has established the Capital Market Place and Intermediation (CMPIT) to oversee the operationalization of the Proclamation, further demonstrating their commitment to developing a capital market (World Bank, 2021).

While Ethiopia has a well-established financial sector, including banks, insurance companies, and other financial institutions, the capital market in the country is underdeveloped (Alemayehu & Bayou, 2018). This underdevelopment can be attributed to various factors, including inadequate laws and regulations, insufficient technological infrastructure, and low levels of public awareness (Asare, 2020; Aboma & Kassahun, 2017). These challenges need to be addressed for the successful implementation of a capital market in Ethiopia (Asare, 2020; Alemayehu & Bayou, 2018; Hussien, 2020).

Establishing a capital market in Ethiopia is crucial for channeling local savings into investments, reducing the cost of capital, and promoting economic growth (Molla, 2014; Alemayehu & Bayou, 2018). It provides a platform for companies to raise long-term funds for expansion and development while offering investors opportunities for diversification and wealth creation (Molla, 2014; Hussien, 2020). However, the country must address the challenges and gaps in the financial system to ensure the successful implementation of a capital market and derive the benefits associated with it (Asare, 2020; Alemayehu & Bayou, 2018; Aboma & Kassahun, 2017).

The study aims to analyze the prospects and challenges of establishing a capital market in Ethiopia, focusing on the institutional, macroeconomic, and policy aspects required for its establishment. This analysis will be conducted through an in-depth review of literature, including research papers and reports on capital markets in Ethiopia, government policies and strategies related to capital market development, and empirical evidence from other countries that have successfully established capital markets. Additionally, primary data will be collected through key informant interviews with strategically positioned senior officials in different organizations to provide valuable insights into the current state and future outlook of the capital market in Ethiopia.

Ethiopia's significant economic growth and development, combined with the government's interest in establishing a capital market, creates an opportune environment for the establishment of a capital market. However, challenges such as inadequate laws and regulations, insufficient technological infrastructure, and low levels of public awareness need to be addressed. The study aims to analyze these prospects and challenges, providing insights into the institutional, macroeconomic, and policy aspects required for the successful establishment of a capital market in Ethiopia.

1.2 Statement of the Problem

Despite Ethiopia's significant economic growth and development, the country's capital market remains underdeveloped due to a lack of adequate laws, regulations, technological infrastructure, and public awareness (Mohammed & Tigist, 2019; Kudos, 2018). However, the government has demonstrated its commitment to establishing a capital market by issuing the Capital Markets Proclamation No. 1248/2021 and creating the Capital Market Place and Intermediation (CMPIT) (World Bank, 2021). The successful establishment of a capital market in Ethiopia can help channel local savings into investments and reduce the cost of capital, ultimately promoting further economic growth (Emnet & Mahlet, 2021). This study aims to examine the prospects and challenges of establishing a capital market in Ethiopia, with a focus on the institutional, macroeconomic, and policy aspects required for its successful implementation (Irina, 2020). By analyzing research papers, government policies and strategies, and empirical evidence from other countries, this study seeks to provide valuable insights into the current state and future outlook of the capital market in Ethiopia.

The establishment of a capital market in Ethiopia faces several challenges. One of the main challenges is the lack of a supportive regulatory framework, which has hindered the development of the capital market (Addis Insight, 2021; Tessema, 2016). According to a study conducted by Asrat (2021), Ethiopia does not currently have a stock market apart from treasury bills and government bonds, and there is a lack of equity capital among financial institutions, including saving institutions. Another challenge is the limited liquidity and a small number of listed companies (Addis Insight, 2021). Additionally, the lack of investor awareness has resulted in a low level of participation in the capital market (Addis Insight, 2021; Tessema, 2016). The establishment of a well-functioning secondary stock market requires strong regulatory and legal frameworks, which are currently absent (Teferra, 2021). It is crucial for the government to establish prudent legal and institutional frameworks that regulate the operation of the secondary stock market (Teferra, 2021). Patience and smart policy are necessary for the successful establishment of a capital market in Ethiopia and it needs to be carefully prepared and sequenced with other economic policies (Ethiopia Insight, 2023).

1.3 Objective of the study

1.3.1 General objective

The general objective of the study is to examine the prospects and challenges of establishing a capital market in Ethiopia.

1.3.2 Specific objective

The specific objectives of this study are as follows:

1. To investigate the potential benefits of establishing a capital market in Ethiopia.
2. To identify the main challenges faced in the establishment of a capital market in Ethiopia.
3. To examine how the limited financial infrastructure in Ethiopia can be overcome to establish a thriving capital market.

1.4 Research Questions

1. What are the potential prospects of establishing a capital market in Ethiopia?
2. What are the main challenges faced in the establishment of a capital market in Ethiopia?
3. How can the limited financial infrastructure in Ethiopia be overcome to establish a thriving capital market?

1.5 Significance of the study

The significance of this study is multifaceted. Firstly, it aims to understand the potential benefits that can arise from establishing a capital market in Ethiopia and how these benefits can contribute to the country's economic growth and development. By exploring factors such as increased productivity, enhanced resource allocation, improved liquidity, and diversified investment opportunities, this study provides valuable information for policymakers and stakeholders to make informed decisions regarding the feasibility and potential impact of a capital market in Ethiopia.

Secondly, the study also focuses on identifying the main challenges involved in establishing a capital market and devising strategies to address these challenges. This aspect is crucial for ensuring a successful implementation of the capital market. By recognizing the obstacles and designing appropriate policies and interventions, policymakers and stakeholders can work together to overcome these challenges effectively.

Additionally, this study examines how the limited financial infrastructure in Ethiopia can be overcome to establish a thriving capital market. It assesses the role of the government, financial institutions, and other stakeholders in addressing these limitations. By analyzing and identifying areas where collaboration among these entities can improve the country's financial infrastructure, this study provides insights that can create the essential conditions required for a fully functional and trustworthy capital market in Ethiopia.

Finally the significance of this study lies in its contribution to the successful implementation of a capital market in Ethiopia. Through an exploration of potential benefits, identification of challenges, and examination of financial infrastructure, policymakers and stakeholders can utilize the findings as a basis for informed decision-making and policy formulation. The study's outcomes have the potential to boost economic growth and development in Ethiopia, while also opening up new investment opportunities for both local and foreign investors.

1.6 Scope of the Study

The scope of this study encompasses the geographical region of Ethiopia. It aims to assess the potential benefits of establishing a capital market within the country and how they can contribute to its economic growth and development. The study also focuses on identifying the main challenges that may hinder the implementation of a capital market and exploring strategies to address these challenges to ensure a successful outcome.

In terms of the time variable, the study takes into account the current context in Ethiopia and examines the prospects for establishing a capital market within the foreseeable future. It recognizes that the establishment of a capital market is a complex process that requires careful consideration and planning.

Methodologically, this study utilizes a comprehensive approach. It involves investigating and analyzing relevant literature, examining case studies from other countries, conducting interviews and surveys. By employing a mix of qualitative and quantitative research methods, the study aims to provide a comprehensive understanding of the potential benefits, challenges, and strategies related to establishing a capital market in Ethiopia.

The geographical scope of this study is Ethiopia, while the time variable is focused on the present and near future. The research methodology includes a combination of literature review, case studies, interviews, and surveys, allowing for a comprehensive analysis of the potential benefits, challenges, and strategies involved in establishing a capital market in the country.

1.7 Limitation of study

No research work is flawless, and this study is no exception. It encountered several limitations: the unavailability of comprehensive data sources within a short timeframe posed a significant obstacle, alongside respondents' reluctance and lack of experience in providing detailed information. To mitigate these challenges, the researcher maximized the available budget and time, raised awareness among data collectors and respondents about the study's purpose and importance, and ensured the study remained informative and factually expressive.

1.8 Organization of the study

This proposal was organized into several chapters, including the Introduction, Literature Review, Research Design and Methodology, Results, Discussion, and Conclusion. Each chapter will address specific aspects of the research topic.

Chapter Two

2 Literature Review

2.1. THEORETICAL LITERATURE

2.1.1. DEFINATION

The capital market can be described as a way for corporations and organizations to obtain funding and a forum for investment activities [Anand & Mohapatra, 2018]. It has two components: the primary market, which refers to the initial sale of securities to the public, and the secondary market, where shares are exchanged between investors [EMI Working Paper Series]. The capital market acts as a place where issuers and potential investors can congregate, allowing for the exchange of long-term, transferable funds [Olumilua, 2015]. Its primary function is the allocation of ownership in the economy's capital stock, which is vital for any modern economy's proper functioning [Olowu et al., 2017; Singh, 2018]. These explanations offer a comprehensive understanding of the capital market's operations.

The capital market is widely recognized as a key component of the financial system that enables the trading of long-term financial instruments, including stocks and bonds [Sohail & Hassan, 2020]. It serves as a crucial source of funding for businesses and facilitates the mobilization of savings from individuals, businesses, and institutions towards investment and economic development [Jensen & Meckling, 1976; Raposo-Silva et al., 2018].

The intermediaries operating within the capital market provide a range of services to facilitate the flow of funds between investors and issuers, including advisory, underwriting, and trading support [Choudhury & Alam, 2016]. In light of the significant role of the capital market in the economy, it operates within a regulatory framework that aims to ensure transparency, accountability, and investor protection [Allen & Gale, 2000].

By providing a platform for companies and institutions to access long-term funding and allowing investors to diversify their portfolios, the capital market facilitates the efficient allocation of resources towards high-growth ventures [Makhammad, 2020]. This allocation is essential in promoting economic growth, job creation, and technological innovation [Ojo, 2017]. In developing

countries, a well-functioning capital market can play a vital role in attracting domestic and foreign investment and fostering entrepreneurship [Fosu & Bulte, 2015].

The capital market provides a crucial link between savers and investors, enabling the efficient allocation of financial resources and contributing to the overall growth and development of an economy [Kwon & Shin, 1999].

2.2 Characteristics of the Capital Market

The capital market is characterized by several key features that have been extensively studied and documented. Firstly, it primarily deals with long-term financial instruments, such as stocks, bonds, and securities, which have a maturity period exceeding one year (Ho and Lee, 2019). Secondly, it plays a crucial role in mobilizing savings from various sources, including individuals, businesses, and other institutions, directing these funds towards investments and economic development (Barth, Caprio, and Levine, 2013). Thirdly, intermediaries like investment banks, brokerage firms, and financial institutions act as facilitators, connecting investors and issuers and enabling the smooth flow of funds (Brennan and Subrahmanyam, 2019).

Additionally, the capital market operates within a regulatory framework to ensure fair and transparent transactions, safeguard investor interests, and maintain market stability (Bodie, Kane, and Marcus, 2014). It focuses on efficient resource allocation by directing capital towards businesses and projects with high growth potential (Gompers and Lerner, 2018). In doing so, it contributes significantly to promoting economic growth, job creation, and technological innovation (Rajan and Zingales, 1998). Moreover, it enables investors to diversify their portfolios and generate returns through investments, thus increasing opportunities and risk management capability (Sharpe, 2019).

The capital market serves as a vital component of the financial system, playing a pivotal role in efficiently allocating financial resources, driving economic growth, and facilitating the development of the economy (Levine, 2020).

2.3 Benefits of Investing In the Capital Market

Investing in the capital market offers numerous advantages for investors. Firstly, it provides the potential for higher returns compared to low-risk investments. According to a study by Malkiel (2019), financial instruments like stocks have historically delivered higher average returns over the long term, enabling investors to accumulate wealth. Secondly, the capital market allows for diversification, which helps reduce risks and enhance long-term returns. According to Merton (1987), diversifying investments across different sectors, regions, and asset classes can improve portfolio stability and increase the likelihood of achieving consistent returns. Thirdly, the capital market offers a wide range of investment opportunities. As noted by Bodie et al. (2013), investors have access to bonds, mutual funds, ETFs, derivatives, and alternative investments, providing them with the ability to tailor their investments to their specific goals and preferences. Moreover, the capital market provides liquidity, allowing investors to easily buy and sell their investments as needed. This liquidity feature is vital for maintaining flexibility and reacting to changing market conditions, as highlighted by Mishkin and Eakins (2015).

Additionally, investing in the capital market can lead to capital appreciation. As stated by Malkiel (2019), as companies grow, their stock prices tend to rise, resulting in capital gains for investors. Finally, many capital market investments provide regular income in the form of dividends or interest payments. According to Reilly and Brown (2011), dividends from stocks and interest from bonds can offer investors a consistent cash flow. However, it is important to note that investing in the capital market also carries risks. Therefore, it is advisable for investors to seek guidance from financial professionals and consider their risk tolerance and investment objectives before making any investment decisions.

2.4 Key Factors That Need To Be Considered In Establishing a Capital Market in Ethiopia

Macroeconomic stability is an essential factor in attracting investors to a capital market (Arestis & Mouratidis, 2005). Investors are more likely to invest in countries with stable macroeconomic conditions, such as low inflation, a stable exchange rate, sound fiscal policies, and a well-regulated financial system. These factors indicate a favorable investment climate and reduce uncertainties associated with macroeconomic fluctuations.

A comprehensive legal and regulatory framework is necessary for the smooth functioning of a capital market (Akyüz & Cornford, 2005). Effective regulation and investor protection promote market integrity and attract both domestic and foreign investors. Laws and regulations should protect the rights of investors, ensure fair and transparent trading practices, and provide clear guidelines for market participants. Regulatory authorities need to enforce these regulations effectively.

The availability of proper market infrastructure is fundamental for the establishment and efficient functioning of a capital market (Huang & Wang, 2012). Well-developed market infrastructure, including trading platforms, securities depositories, and clearing and settlement systems, enhances market liquidity and investor confidence. Adequate and reliable infrastructure enables smooth transactions, timely information dissemination, and price discovery.

Investor protection is a critical element in establishing a capital market (Qi & Wu, 2011). Investor protection measures positively influence investors' decisions to participate in a market. Measures need to ensure that investors are well-informed, have access to accurate and timely information, and can exercise their rights without any unfair or fraudulent practices. Investor education and awareness programs enhance investor protection.

The presence of a diverse range of financial market intermediaries contributes to the development of a capital market (Altunbaş, Marques-Ibanez, & Santos, 2011). Financial intermediaries, such as banks, insurance companies, and brokerage firms, enhance market efficiency, liquidity, and depth. They provide necessary financial services and products required by investors.

Robust corporate governance practices are essential for ensuring transparency and accountability

in a capital market (La Porta, López-de-Silanes, Shleifer, & Vishny, 2000). Strong corporate governance practices positively influence investor confidence and attract investment. Implementing effective corporate governance mechanisms protects the interests of shareholders and enhances the credibility of listed companies.

Transparency and disclosure are vital for the proper functioning of a capital market (Franks, Mayer, & Wagner, 2013). Transparency improves market efficiency, fosters investor confidence, and reduces information asymmetry. Listed companies should disclose relevant and accurate financial and non-financial information in a timely manner. Regular reporting and financial audits maintain market integrity and promote informed decision-making by investors.

Initiatives aimed at increasing market depth, liquidity, and investor participation are crucial for the growth of a capital market (Demirgüç-Kunt & Detragiache, 1999). Market development initiatives, such as introducing new financial products or facilitating cross-border market linkages, positively impact market growth. Providing incentives for companies to list and raise capital, promoting research and analysis of listed companies, and encouraging market innovations contribute to a vibrant and sustainable capital market.

Ensuring a well-informed and educated investor base is vital for the success of a capital market (Lusardi, 2008). Investor education programs enhance investor knowledge, reduce investment risks, and increase market participation. Educated investors understand the risks and benefits of investing, make informed investment decisions, and contribute to market liquidity and stability.

The establishment of a capital market in Ethiopia requires careful consideration of key factors such as macroeconomic stability, a strong legal and regulatory framework, market infrastructure development, investor protection, corporate governance, market transparency, market development initiatives, and investor education (Altunbaş et al., 2011). By addressing these factors, Ethiopia can create an enabling environment for the growth and development of a vibrant and sustainable capital market.

2.5 Empirical review

2.5.1 OVERVIEW OF AFRICA'S CAPITAL MARKET

Banking has traditionally been the dominant source of finance in Africa (Promotion of Capital Markets in Africa, 1999; Amare, 2008). However, the intention was for financial markets to reduce the reliance on banks (Promotion of Capital Markets in Africa, 1999). Until recently, African countries had limited capital markets, and the ones that did exist performed poorly relative to developed markets (Promotion of Capital Markets in Africa, 1999; Amare, 2008). Nevertheless, there has been significant progress in Africa's capital markets, with more than twenty stock exchanges currently operating across the continent (Amare, 2008). These markets have the potential to drive economic growth and transformation in Africa, a region hindered by political instability, inadequate infrastructure, and a lack of skilled human capital (Amare, 2008). The exponential growth of Africa's equity markets is reshaping the investment landscape on the continent (AllAfrica, 2016). Additionally, Africa's rapid recovery compared to developed markets can be attributed to sound macroeconomic policies, political stability, and support from multilateral agencies (AllAfrica, 2016). Recent efforts to stabilize economies, deregulate and privatize businesses, and enhance regional collaboration have further bolstered African equity markets, positioning them as attractive investment opportunities in the global frontier markets (AllAfrica, 2016).

2.5.2 The Capital Market in South Africa

The capital market in South Africa is experiencing steady growth thanks to improved regulation and supervision (Donna, 2016). Efforts to strengthen the regulatory framework, especially regarding settlement cycles and systemic risk related to over-the-counter securities, are underway (Donna, 2016). The Johannesburg Stock Exchange (JSE) is implementing technical and regulatory enhancements, introducing new products, enhancing supervision, and focusing on cross-border activities to drive market development (Donna, 2016). Market participants are capitalizing on the growing interest in Africa from investors and positioning South Africa as a regional hub for initial public offerings and derivatives trading (Donna, 2016). Despite potential challenges posed by international factors and a weaker global economy, the JSE is expected to maintain its reputation as Africa's most robust capital market (Donna, 2016). Additionally, the JSE has been a leader

among African exchanges in terms of the number and value of initial public offerings and capital raised over the past five years, amounting to \$2.7 billion (Donna, 2016).

2.5.3 The Nigerian Capital Market

Nigeria's capital market owes its origin to the establishment of the Central Bank in 1959 and the subsequent launch of the Lagos Stock Exchange (LSE) in 1961, marking a significant milestone in the development of the country's financial system (Pat & James, 2010). Prior to this, securities had been floated as early as 1946, but there was a need for an organized stock exchange to regulate the trading of securities and promote transparency in the market. The government, recognizing the importance of an organized capital market to the growth and development of the economy, constituted a committee to explore ways of setting up a stock exchange. The committee's recommendations led to the establishment of the LSE, which became the hub of the Nigerian capital market and played a crucial role in channeling long-term capital to the economy.

The establishment of the Nigerian capital market served several purposes. Firstly, it addressed the difficulty of selling government stock, which was a major concern at the time. Prior to the establishment of the LSE, the government had to rely on foreign banks and investors to buy its bonds, but with the introduction of an organized stock exchange, it became easier to raise capital domestically through the issuance of government bonds and other securities.

Secondly, the capital market provided opportunities for local investors to lend money at an attractive rate for long-term purposes, such as financing infrastructure and industrial projects. The availability of long-term capital helped to bridge the infrastructure gap and boosted economic growth in the country.

Thirdly, the capital market enabled foreign businesses to offer shares to interested Nigerians, providing an avenue for them to invest and participate in the ownership of these foreign businesses. This allowed foreign companies to raise capital domestically and expand their operations, while also giving local investors the opportunity to diversify their portfolio and benefit from the growth of these businesses.

The development of the Nigerian capital market was a significant milestone in the country's economic history. It has contributed to the growth and development of the economy by promoting transparency and accountability in the financial system, facilitating access to long-term capital, and enabling domestic and foreign businesses to raise funds and expand their operations (Pat & James, 2010).

2.5.4 Egypt's Capital Market

Egypt's capital market has been experiencing growth and attracting investments, showcasing the country's economic health and stability. The Egyptian Financial Regulatory Authority (FRA) reported a significant increase in the number of capital increases for existing companies and amendments to nominal values during the month of July (Egypt Today). A total of 202 approvals were granted, amounting to a value of LE 49.2 billion, compared to 241 approvals in July 2022, totaling LE 41.9 billion (Egypt Today). This growth trend reflects the resilience and attractiveness of the Egyptian financial sector, underlining Egypt's commitment to encouraging investment and fostering economic growth (Egypt Today).

Egypt's capital market is an important keystone in the country's financial system, as banks and other financial institutions rely on them for funding (Central Bank of Egypt). The country has plans to borrow at least \$1.5 billion before the end of the year, with \$500 million in what would be Egypt's debut panda bonds and its second sale of samurai bonds (Bloomberg). Egypt was locked out of capital markets amid IMF review delays, but the plans include tapping Asian capital markets as part of debt issuance guaranteed by development finance institutions (Bloomberg).

Egypt's capital market has also been ranked highly in global rankings. The country maintains a top 5 ranking in Africa capital markets index, behind investment gateways South Africa and Mauritius, and the continent's biggest economy, Nigeria (Chambers Rankings).

2.5.5 Sudan's Capital Market

Sudan's capital market is relatively small and underdeveloped. The Khartoum Stock Exchange (KSE) is the principal stock exchange of Sudan, with 53 listed companies worth a total market capitalization of \$1.4 billion as of December 2021 (CEIC Data) (Practical Law). The KSE is open only one hour per day, Sunday through Thursday (Wikipedia). Sudan's domestic market currently

offers little opportunity for growth, with unemployment at approximately 40 percent and low household incomes (Trade.gov). The country's economy has been struggling, with an economic contraction likely in 2022 and annual inflation still high at 192 percent as of May 2022 (Trade.gov). The widespread destruction of Sudan's economic foundations has set the country's development back by years (World Bank). The agriculture and extractive industries are Sudan's top economic drivers, with gold exports being a leading source of hard currency. However, numerous market challenges, including distribution bottlenecks, lack of credit, scarcity of inputs, and outmoded production methods have negatively affected the sector's export potential (Trade.gov).

2.5.6 Ethiopian Capital Market

Ethiopia is currently in the process of developing its capital market. The Ethiopian Capital Market Authority (CMA) is a newly established government agency responsible for regulating the capital markets in Ethiopia (Ethiopian Capital Market Authority, n.d.). The CMA reports directly to the Prime Minister and operates with its own legal status (Ethiopian Capital Market Authority, n.d.). The Ethiopian government has been actively working towards the establishment of the Ethiopian Securities Exchange (ESX), which is expected to launch in 2024-25 (Towards the Development of Capital Market in Ethiopia, n.d.). This development is expected to have significant positive impacts on the Ethiopian economy by driving consistent economic growth (Towards the Development of Capital Market in Ethiopia, n.d.).

To support the growth of the capital market, the CMA is prioritizing various areas, including the development of a regulatory framework, capacity enhancement, and investor education (Ethiopian Capital Market Authority, n.d.). However, Ethiopia's capital market is still in its early stages and faces challenges that need to be addressed. One such challenge is the need to upgrade the country's internet and cell phone capabilities to ensure fast and accurate trading (Towards the Development of Capital Market in Ethiopia, n.d.).

Overall, Ethiopia is actively working towards the development of its capital market, and with the establishment of the ESX and the efforts of the CMA, it is expected to create new investment opportunities and contribute significantly to the country's economic growth.

CHAPTER 3

3 RESEARCH DESIGN AND METHODOLOGY

3.1 RESEARCH DESIGN

The study aimed to explore the potential prospects and challenges associated with establishing a capital market in Ethiopia. To achieve this objective, a descriptive research design was employed to provide a detailed description of the prospects and challenges for the establishment of a capital market in Ethiopia. The choice of this research design was influenced by the fact that descriptive research focuses on accurately describing the current state of affairs and reporting past or ongoing events. Consequently, this design was well suited to accurately explain and report on the prospects and challenges of establishing a capital market in Ethiopia.

In addition to the explanation above, another source by James C. Kirkpatrick and Julien Ouaknine (2019) further supports the use of descriptive research design for studying prospects and challenges. The authors argue that descriptive research is crucial for providing an understanding of a specific phenomenon and its current state, which can be valuable for decision-making and policy formulation. In the context of establishing a capital market in Ethiopia, the use of a descriptive research design allows for a comprehensive understanding of the opportunities and obstacles involved, enabling informed decision-making and effective policy development.

3.2 Data Collection

a. Primary Data: Semi-structured questionnaire s was being conducted with Ethiopian capital market authority. These questionnaire s was be designed to gather insights on the potential benefits and challenges of establishing a capital market in Ethiopia, as well as the role of different stakeholders in addressing limitations.

b. Secondary Data: Relevant literature, reports, and articles published by reputable sources, such as academic journals, financial institutions, and governmental bodies, was be reviewed to gather additional information and understanding on the topic.

3.3. Sampling Technique

Purposive sampling was employed to select participants for questionnaire s. Board of directors and members of board were included.

3.4 Sample Size

The sample size for the survey was determined based on data saturation, where additional survey cease to provide new insights or information. It is estimated that questionnaire s with 15 participants was sufficient to achieve saturation.

3.5 Data Analysis

The data collected through survey and secondary sources was analyzed using thematic analysis. This approach involves identifying and coding key themes and patterns in the data to gain a comprehensive understanding of the potential benefits, challenges, and strategies for establishing a capital market in Ethiopia.

3.6 validity and reliability

3.6.1 Validity

Validity as were used in this research as refers to the degree to which the outcome of the study accurately reflects the variable which is being measured or which the researcher is attempting to measure. According to Eriksson and Wiedersheim-Paul (1997,p. 38), validity was defined as: "The ability of a scale or measuring instrument to measure what is intended to be measured". Validity will therefore be concerned with the success rate at which the study measures what the research sets out to measure. There are various types of validity (Hardy and Byrman, 2004) that can be used in research studies, but for the purpose of this study, the face validity will be used. This is because the study should be proven through pre-testing, rewording and re-evaluation of the instrument used (Hardy and Byrman, 2004).

3.6.2 Reliability

Reliability was ensured through the use of a questionnaire as the primary data collection instrument. Reliability in this context refers to the consistency and dependability of the questionnaire in yielding consistent results when administered multiple times or under different conditions. To enhance reliability, careful attention was paid to the design of the questionnaire, including clear and unambiguous wording of questions, proper sequencing of items, and ensuring that the instrument adequately captured the intended variables. Additionally, pilot testing was conducted to identify and address any ambiguities or misunderstandings among respondents, thereby improving the reliability of the questionnaire. Overall, these measures were taken to ensure that the data obtained from the questionnaire were reliable and could be confidently used to draw conclusions in the thesis.

3.7 Ethical Consideration

Ethical considerations play a crucial role in ensuring the integrity and protection of participants in research studies. In this study on the prospects and challenges of establishing a capital market in Ethiopia, two key ethical considerations are emphasized.

Firstly, informed consent is prioritized to ensure that participants fully understand the nature of the study and voluntarily agree to participate. Before conducting questionnaire s, participants was be provided with an informed consent form that clearly outlines their rights, the purpose of the study, and how their data was be used and anonymized. Only individuals who provide their informed consent was be included in the study, respecting their autonomy and right to control their participation. Secondly, confidentiality is treated with utmost importance. All data collected during the study was being kept confidential and stored securely. Participants' names and any identifiable information were not being disclosed in any presentations or reports. To further protect their privacy, pseudonyms was be used to refer to participants instead of their real names. By implementing these ethical considerations, the researchers ensure the protection of the participants' rights, maintain confidentiality, and uphold a high standard of ethical conduct throughout the study on the prospects and challenges of establishing a capital market in Ethiopia.

CHAPTER FOUR

4 DATA PRESENTATION, ANALYSIS & INTERPRETATION

4.1 Introduction

In this chapter, an analysis and interpretation are provided on the data collected about the prospects and challenges of establishing a capital market in Ethiopia. The chapter consists of several different topics, including an introduction, and the demographic characteristics of respondents, potential benefits of establishing a capital market in Ethiopia, main challenges faced in the establishment of a capital market in Ethiopia, how the limited financial infrastructure in Ethiopia can be overcome to establish a thriving capital market, and to analyze the role of the government, financial institutions, and other stakeholders in addressing these limitations.

4.2 Demographic Characteristics of Respondents

Table 4.2 gender

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|-----------|---------|---------------|--------------------|
| Valid male | 8 | 72.7 | 72.7 | 72.7 |
| female | 3 | 27.3 | 27.3 | 100.0 |
| Total | 11 | 100.0 | 100.0 | |

Firstly, the frequency column indicates that there are 8 male respondents and 3 female respondents, making a total of 11 participants. This numerical breakdown shows that males form the larger group within the sample.

Secondly, the percent column reveals that males constitute 72.7% of the respondents, while females make up 27.3%. These percentages highlight the predominance of male respondents in the survey, with nearly three-quarters of the participants being male.

Table 4.3 Age

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------|-----------|---------|---------------|--------------------|
| Valid 18-30 | 7 | 63.6 | 63.6 | 63.6 |
| 31-40 | 4 | 36.4 | 36.4 | 100.0 |
| Total | 11 | 100.0 | 100.0 | |

Table 4.3 provides insights into the age distribution of a sample, with a clear emphasis on the percentage breakdown. The "Percent" column reveals that a substantial majority (63.6%) of the individuals in the sample belong to the 18-30 age group, indicating a predominantly young demographic. Conversely, a smaller proportion (36.4%) falls within the 31-40 age group. This disparity highlights a significant skew towards younger individuals. The "Cumulative Percent" column further emphasizes this trend, showing that 63.6% of the sample is 30 years old or younger, while 100% is 40 years old or younger. In essence, the percentages in Table 4.3 clearly demonstrate a strong concentration of individuals within the younger age bracket, suggesting a sample with a youthful profile.

Table 4.4 Educational level

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------|-----------|---------|---------------|--------------------|
| Second degree | 5 | 45.5 | 45.5 | 45.5 |
| First degree | 6 | 54.5 | 54.5 | 100.0 |
| Total | 11 | 100.0 | 100.0 | |

4.4 presents data on the educational level of a sample, focusing on the distribution of individuals with second degree and those holding a first degree. The "Percent" column reveals that 45.5% of the sample has completed second degree, while 54.5% hold a first degree. This suggests a relatively balanced distribution between these two educational levels, with a slight majority having obtained a first degree. The "Cumulative Percent" column reinforces this observation, indicating that 45.5% of the sample has attained at least a second degree, while 100% has achieved at least a first degree. In summary, while the sample exhibits a slight preference for first degree, the distribution of educational levels within the sample is relatively even, with a significant proportion possessing a second degree.

4.4 Descriptive Analysis

According to Zaidation and Bagheri, mean scores below 3.39 indicate a low level, scores from 3.40 to 3.79 indicate a moderate level, and scores above 3.8 indicate a high level. In this section, the frequency distribution and percentage of respondents for each objectives.

4.4.1 To investigate the potential benefits of establishing a capital market in Ethiopia.

Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--|----|---------|---------|--------|----------------|
| There is a strong demand for new financial instruments in Ethiopia. | 11 | 5.00 | 5.00 | 5.0000 | .00000 |
| The regulatory environment in Ethiopia is conducive to establishing a capital market | 11 | 4.00 | 5.00 | 4.3636 | .50452 |
| Ethiopian businesses would benefit from access to capital through a local market. | 11 | 3.00 | 5.00 | 4.6364 | .67420 |
| There is sufficient investor interest to support a capital market in Ethiopia | 11 | 4.00 | 5.00 | 4.2727 | .46710 |
| The current economic conditions in Ethiopia are favorable for a capital market. . | 11 | 4.00 | 5.00 | 4.1818 | .40452 |
| There is adequate infrastructure to support a capital market in Ethiopia. | 11 | 2.00 | 5.00 | 4.0000 | .77460 |
| Establishing a capital market would attract foreign investment to Ethiopia. | 11 | 4.00 | 5.00 | 4.5455 | .52223 |
| Local financial institutions are capable of supporting a capital market. | 11 | 4.00 | 5.00 | 4.7273 | .46710 |
| Valid N (list wise) | 11 | | | | |

The table provides a comprehensive assessment of the potential benefits of establishing a capital market in Ethiopia, based on the opinions of 11 respondents using the Zadtion and Bagheri scoring system. A strong consensus emerges regarding the demand for new financial instruments within the Ethiopian market, with all respondents strongly agreeing (mean score of 5.00). This suggests a significant need for diverse financial instruments to meet the evolving needs of the Ethiopian economy. Furthermore, the respondents express a generally positive perception of the regulatory environment, with a mean score of 4.36, indicating that it is conducive to establishing a capital market.

The potential benefits for Ethiopian businesses are also highlighted, with strong agreement (mean score of 4.64) that they would benefit from access to capital through a local market. This suggests that a capital market could play a crucial role in fostering economic growth and development by providing businesses with access to necessary funding. Confidence in the ability of local financial institutions to support a capital market is also high, with a mean score of 4.73. This indicates that these institutions possess the expertise and resources necessary to facilitate the development and operation of a capital market.

While there is moderate agreement on the existence of sufficient investor interest (mean score of 4.27), the current economic conditions (mean score of 4.18), and the potential for attracting foreign investment (mean score of 4.55), these factors suggest a generally favorable environment for developing a capital market. However, the mixed agreement on the adequacy of infrastructure (mean score of 4.00) highlights the need for further development in this area to fully support a thriving capital market.

Overall, the table presents a positive outlook on the potential benefits of establishing a capital market in Ethiopia. The strong agreement on the demand for financial instruments, the conducive regulatory environment, the benefits for businesses, and the capability of local institutions suggests a promising foundation. However, the need for further infrastructure development remains a key consideration for ensuring the success of a capital market in Ethiopia.

4.4.2 To identify the main challenges faced in the establishment of a capital market in Ethiopia.

Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|----|---------|---------|--------|----------------|
| The regulatory framework in Ethiopia is insufficient for a capital market. | 11 | 2.00 | 5.00 | 3.6364 | .92442 |
| There is a lack of investor awareness and education about capital markets in Ethiopia. | 11 | 2.00 | 5.00 | 4.0000 | 1.09545 |
| There is limited access to technology necessary for capital market operations in Ethiopia. | 11 | 2.00 | 4.00 | 3.7273 | .64667 |
| Limited access to reliable financial information and data is a challenge in establishing a capital market | 11 | 3.00 | 4.00 | 3.9091 | .30151 |
| Weak corporate governance practices present a challenge to the establishment of a capital market. | 11 | 3.00 | 5.00 | 4.0000 | .44721 |
| Political instability poses a significant risk to the establishment of a capital market. | 11 | 2.00 | 5.00 | 3.8182 | .75076 |
| There is insufficient support from the government for establishing a capital market. | 11 | 3.00 | 5.00 | 3.7273 | .64667 |
| There is a lack of trust among potential investors in the Ethiopian financial system. | 11 | 3.00 | 4.00 | 3.9091 | .30151 |
| The current economic conditions in Ethiopia are not conducive to establishing a capital market. | 11 | 2.00 | 5.00 | 3.6364 | .92442 |
| Valid N (list wise) | 11 | | | | |

The table provides a detailed analysis of the challenges faced in establishing a capital market in Ethiopia, using the Zadtion and Bagheri scoring system to gauge the opinions of 11 respondents.

The results reveal several significant obstacles that need to be addressed for a successful capital market to emerge.

The most prominent concern is the inadequacy of the regulatory framework, with a mean score of 3.64. This indicates a strong perception that the existing regulations are insufficient to support a robust capital market. Substantial improvements are required to ensure a stable and reliable environment for investors. Closely related to this is the lack of investor awareness and education about capital markets, reflected in a mean score of 4.00. This highlights the critical need for comprehensive education programs to foster understanding and participation among potential investors.

Political instability poses another significant challenge, with a mean score of 3.82. This underscores the importance of creating a stable political environment to attract investors and foster confidence in the long-term viability of the capital market. Furthermore, insufficient government support, with a mean score of 3.73, emphasizes the need for active government involvement in creating a conducive environment for the development of a capital market.

While other challenges such as limited access to technology, information availability, corporate governance practices, and a lack of trust in the financial system exist, they are perceived as less critical compared to the aforementioned key obstacles. These moderate challenges, with mean scores ranging from 3.73 to 4.00, still require attention but are not considered as pressing as the more significant concerns.

Overall, the table highlights the need for a multifaceted approach to address the challenges in establishing a capital market in Ethiopia. Prioritizing the improvement of the regulatory framework, enhancing investor awareness and education, fostering political stability, and securing strong government support will be crucial for creating a favorable environment for the successful establishment and growth of a capital market in Ethiopia.

4.4.3 To examine how the limited financial infrastructure in Ethiopia can be overcome to establish a thriving capital market.

Descriptive Statistics

Prospect and Challenges of Establishment of Capital Market in Ethiopia

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|----|---------|---------|--------|----------------|
| The government should prioritize reforms to improve the financial infrastructure in Ethiopia. | 11 | 4.00 | 5.00 | 4.1818 | .40452 |
| Public-private partnerships can effectively address financial infrastructure limitations. | 11 | 4.00 | 5.00 | 4.1818 | .40452 |
| Insufficient infrastructure for securities trading and settlement poses challenges to the establishment of a capital market. | 11 | 2.00 | 4.00 | 3.0909 | 1.04447 |
| Lack of efficient and reliable payment and settlement systems limits investor confidence and market participation. | 11 | 2.00 | 4.00 | 3.0909 | 1.04447 |
| Limited availability of credit and financing options restricts capital market development. | 11 | 2.00 | 4.00 | 3.0000 | .44721 |
| Financial institutions need to develop new products and services to support a capital market. | 11 | 3.00 | 5.00 | 3.8182 | .75076 |
| Financial institutions have a responsibility to invest in upgrading financial infrastructure to support the establishment of a capital market. | 11 | 4.00 | 5.00 | 4.6364 | .50452 |
| International organizations and development partners can provide technical expertise and financial support to improve financial infrastructure. | 11 | 4.00 | 5.00 | 4.6364 | .50452 |
| Training and education programs are essential to build expertise in capital market operations. | 11 | 5.00 | 5.00 | 5.0000 | .00000 |
| Valid N (listwise) | 11 | | | | |

The table reveals a strong consensus among respondents regarding the need to address the limitations in financial infrastructure to establish a thriving capital market in Ethiopia. The Zadtion and Bagheri scoring system highlights the crucial role of various stakeholders in overcoming these challenges.

There is strong agreement that the government should prioritize reforms to improve financial infrastructure, with a mean score of 4.18. This underscores the government's critical leadership role in this endeavor. Public-private partnerships are also seen as a viable solution to address infrastructure gaps, with a mean score of 4.18. Financial institutions are recognized as having a responsibility to contribute to infrastructure development, as indicated by a mean score of 4.64, demonstrating a strong sense of ownership. Furthermore, there is strong support for seeking assistance from international organizations and development partners to improve financial infrastructure, with a mean score of 4.64. The importance of training and education programs to develop the necessary skills for a thriving capital market is universally recognized, with all respondents agreeing (mean score of 5.00).

However, the table also highlights areas of concern. Insufficient infrastructure for securities trading and settlement, with a mean score of 3.09, poses a significant challenge. Similarly, the lack of efficient and reliable payment and settlement systems, also with a mean score of 3.09, is seen as a major hurdle to investor confidence and market participation. The limited availability of credit and financing options, with a mean score of 3.00, is a moderate concern, suggesting the need for expanded options to support capital market growth. While financial institutions recognize the need to develop new products and services to support a capital market, with a mean score of 3.82, this indicates a moderate agreement, highlighting the need for further adaptation of their offerings.

Overall, the table underscores the importance of a collaborative effort to address the challenges in establishing a capital market in Ethiopia. The government, public-private partnerships, financial institutions, international organizations, and development partners all have crucial roles to play.

Addressing the key areas of concern, including infrastructure for securities trading and settlement, efficient payment and settlement systems, and expanded credit and financing options, will be essential for the successful development of a vibrant capital market in Ethiopia. Furthermore, investing in training and education programs to build expertise in capital market operations is vital for long-term success.

CHAPTER FIVE

5 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the study findings and results and based on the key findings and results, conclusions are drawn and some recommendations are given. The main aim of this study is to examine the prospects and challenges of establishing a capital market in Ethiopia. Therefore the researcher has summarized the findings, and has given conclusions and recommendation based on the information collected and analysed.

5.2 Summary of Findings

In this section, the researcher provides a brief overview of the main discoveries made during the study. The key findings are presented and summarized in the following manner.

- The survey sample is predominantly male, with 72.7% of respondents being male and 27.3% being female.
- The sample is predominantly young; with 63.6% of respondents aged 18-30 and only 36.4% aged 31-40.
- The sample exhibits a relatively even distribution of educational levels, with 45.5% having completed secondary education and 54.5% holding a first degree.
- Strong consensus on the potential benefits of a capital market in Ethiopia: Respondents strongly agree on the need for new financial instruments, the conducive regulatory environment, the benefits for businesses, and the capability of local institutions to support a capital market.
- Mixed views on infrastructure and investor interest: While there is moderate agreement on investor interest, current economic conditions, and attracting foreign investment, the need for further infrastructure development is highlighted.

- **Strong Demand for New Financial Instruments:** All respondents strongly agree (mean score of 5.00) that there is a demand for new financial instruments in the Ethiopian market, indicating a significant need for diverse financial products to meet the evolving needs of the Ethiopian economy.
- **Conducive Regulatory Environment:** Respondents express a generally positive perception of the regulatory environment, with a mean score of 4.36, suggesting that it is conducive to establishing a capital market.
- **Benefits for Ethiopian Businesses:** There is strong agreement (mean score of 4.64) that Ethiopian businesses would benefit from access to capital through a local market, highlighting the potential of a capital market to foster economic growth and development by providing businesses with necessary funding.
- **Confidence in Local Financial Institutions:** Respondents express high confidence (mean score of 4.73) in the ability of local financial institutions to support a capital market, indicating that these institutions possess the expertise and resources necessary to facilitate the development and operation of a capital market.
- **Moderate Agreement on Investor Interest, Economic Conditions, and Foreign Investment:** While there is moderate agreement on the existence of sufficient investor interest (mean score of 4.27), the current economic conditions (mean score of 4.18), and the potential for attracting foreign investment (mean score of 4.55), these factors suggest a generally favorable environment for developing a capital market.
- **Need for Further Infrastructure Development:** The mixed agreement on the adequacy of infrastructure (mean score of 4.00) highlights the need for further development in this area to fully support a thriving capital market.
- **Inadequate Regulatory Framework:** The existing regulatory framework is perceived as insufficient to support a robust capital market (mean score of 3.64).
- **Lack of Investor Awareness and Education:** There is a critical need for comprehensive education programs to foster understanding and participation among potential investors (mean score of 4.00).
- **Political Instability:** Creating a stable political environment is crucial to attract investors and foster confidence in the long-term viability of the capital market (mean score of 3.82).
- **Insufficient Government Support:** Active government involvement is essential to create a conducive environment for the development of a capital market (mean score of 3.73).

- Limited access to technology, information availability, corporate governance practices, and a lack of trust in the financial system are identified as moderate challenges that require attention.
- Strong Consensus on Infrastructure Needs: Respondents strongly agree that addressing limitations in financial infrastructure is crucial for a thriving capital market in Ethiopia.
- Government Leadership: The government's role in reforming financial infrastructure is considered critical (mean score of 4.18).
- Public-Private Partnerships: Public-private partnerships are seen as a viable solution to address infrastructure gaps (mean score of 4.18).
- Financial Institution Responsibility: Financial institutions recognize their responsibility to contribute to infrastructure development (mean score of 4.64).
- International Support: Seeking assistance from international organizations and development partners is strongly supported (mean score of 4.64).
- Training and Education: The importance of training and education programs for capital market development is universally recognized (mean score of 5.00).
- Insufficient Securities Trading and Settlement Infrastructure: A significant challenge (mean score of 3.09).
- Lack of Efficient Payment and Settlement Systems: A major hurdle to investor confidence (mean score of 3.09).
- Limited Credit and Financing Options: A moderate concern requiring expanded options (mean score of 3.00).
- Financial Institution Product Development: While recognized, there is moderate agreement on the need for new products and services (mean score of 3.82).

5.3 Conclusion

This thesis has explored the potential for a capital market in Ethiopia, examining the perspectives of key stakeholders and identifying crucial factors for its successful development. The findings reveal a strong consensus on the potential benefits of a capital market, including access to new financial instruments, a conducive regulatory environment, and positive impacts on Ethiopian businesses. Local financial institutions are also seen as capable of supporting such a market.

However, the study also highlights several key challenges that must be addressed to create a thriving capital market. These include the need for significant investments in financial infrastructure, strengthening the regulatory framework, promoting investor awareness and education, fostering a stable political environment, and securing active government support.

Despite these challenges, the study concludes that the development of a capital market in Ethiopia holds immense potential. The government, financial institutions, and international partners must collaborate to address these challenges through a concerted and comprehensive approach. This includes prioritizing investments in financial infrastructure, developing a robust regulatory framework, implementing targeted education programs, creating a stable political environment, and providing clear policy direction, regulatory support, and infrastructure development.

By addressing these challenges and implementing a strategic plan for capital market development, Ethiopia can unlock significant opportunities for economic growth, job creation, and improved access to finance for businesses and individuals. The establishment of a thriving capital market has the potential to transform Ethiopia's economic landscape, propelling the country towards a more prosperous and inclusive future.

5.4 Recommendations

Based on the finding, here are some recommendations:

- Invest in Securities Trading and Settlement Systems: Focus on strengthening the infrastructure for securities trading and settlement, ensuring efficiency, transparency, and reliability.
- Develop Efficient Payment and Settlement Systems: Invest in modern and reliable payment and settlement systems to facilitate smooth transactions and enhance investor confidence.
- Expand Credit and Financing Options: Promote the development of diverse credit and financing options to cater to the evolving needs of businesses and investors.
- Enhance Transparency and Investor Protection: Develop a robust regulatory framework that prioritizes transparency, investor protection, and fair market practices.
- Promote Corporate Governance: Encourage the adoption of strong corporate governance practices to enhance investor confidence and attract capital.
- Streamline Regulatory Processes: Simplify and streamline regulatory processes to facilitate market participation and reduce bureaucratic hurdles.
- Implement Comprehensive Education Programs: Develop and implement comprehensive education programs to increase investor understanding, knowledge, and participation in the capital market.
- Target Specific Investor Groups: Tailor educational initiatives to specific investor groups, including individual investors, institutional investors, and businesses.
- Promote Financial Literacy: Enhance financial literacy among the general population to foster a more informed and engaged investor base.
- Based on the findings, the following recommendations are proposed for the development of a thriving capital market in Ethiopia:
 - Invest in Securities Trading and Settlement Systems: Focus on strengthening the infrastructure for securities trading and settlement, ensuring efficiency, transparency, and reliability.
 - Develop Efficient Payment and Settlement Systems: Invest in modern and reliable payment and settlement systems to facilitate smooth transactions and enhance investor confidence.
 - Expand Credit and Financing Options: Promote the development of diverse credit and financing options to cater to the evolving needs of businesses and investors.

- Enhance Transparency and Investor Protection: Develop a robust regulatory framework that prioritizes transparency, investor protection, and fair market practices.
- Promote Corporate Governance: Encourage the adoption of strong corporate governance practices to enhance investor confidence and attract capital.
- Streamline Regulatory Processes: Simplify and streamline regulatory processes to facilitate market participation and reduce bureaucratic hurdles.
- Implement Comprehensive Education Programs: Develop and implement comprehensive education programs to increase investor understanding, knowledge, and participation in the capital market.
- Target Specific Investor Groups: Tailor educational initiatives to specific investor groups, including individual investors, institutional investors, and businesses.
- Promote Financial Literacy: Enhance financial literacy among the general population to foster a more informed and engaged investor base.
- Promote Political Stability and Predictability: Foster a stable and predictable political environment that encourages long-term investment and economic growth.
- Strengthen the Rule of Law: Ensure a strong and independent judicial system that upholds the rule of law and protects investors' rights.
- Address Political Risks: Proactively address any political risks that could deter investment and undermine market confidence.
- Provide Clear Policy Direction: Develop a clear and consistent policy framework that supports the development of a thriving capital market.
- Provide Regulatory Support: Provide timely and effective regulatory support to facilitate market operations and address emerging challenges.
- Invest in Infrastructure Development: Prioritize investments in financial infrastructure to create a robust and efficient market ecosystem.
- By implementing these recommendations, Ethiopia can create a conducive environment for the development of a thriving capital market, unlocking significant opportunities for economic growth, job creation, and improved access to finance for businesses and individuals.

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APPENDIX: THE STUDY QUESTIONNAIRES

ST. MARY’S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Program MBA in Accounting and Finance

Dear Respondent:-

I am MBA in Accounting and Finance post graduate student at Saint Marry University. This questionnaire is designed to collect relevant information for the research carried out on the topic “Prospect and Challenges of Establishment of Capital Market in Ethiopia”. The study is conducted for academic purpose that is for partial fulfilment of the requirements of the MBA in Accounting and Finance. Hence, your responses will be kept confidential.

The soundness and validity of findings highly depend on your honest and thoughtful responses. Therefore, I kindly request you to fill the questionnaire carefully and return at your earliest convenience.

Thank you in advance for your kind cooperation!

Part I: General Information

1. Gender

- a) Male
- b) Female

2. Age:

- a) 18-30
- b) 31-40
- c) 41-50
- d) Above 50

3. Educational level:

- a) Secondary Education
- b) Diploma
- c) First Degree
- d) Second Degree
- e) Second Degree and above

4. Work experience

- a) Less than 2 years
- b) 2-5 years
- c) 6-10 years
- d) Above 10 years

Part II: To investigate the potential benefits of establishing a capital market in Ethiopia.

5: Strongly Agree 4: Agree 3: Disagree 2: Strongly Disagree 1: Undecided

| Questions | 5 | 4 | 3 | 2 | 1 |
|--|---|---|---|---|---|
| There is a strong demand for new financial instruments in Ethiopia. | | | | | |
| The regulatory environment in Ethiopia is conducive to establishing a capital market | | | | | |
| Ethiopian businesses would benefit from access to capital through a local market. | | | | | |
| There is sufficient investor interest to support a capital market in Ethiopia | | | | | |
| The current economic conditions in Ethiopia are favourable for a capital market. . | | | | | |
| There is adequate infrastructure to support a capital market in Ethiopia. | | | | | |
| Establishing a capital market would attract foreign investment to Ethiopia. | | | | | |
| Local financial institutions are capable of supporting a capital market. | | | | | |

PART-III: To identify the main challenges faced in the establishment of a capital market in

Ethiopia.

5: Strongly Agree 4: Agree 3: Disagree 2: Strongly Disagree 1: Undecided

| Questions | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| The regulatory framework in Ethiopia is insufficient for a capital market. | | | | | |
| There is a lack of investor awareness and education about capital markets in Ethiopia. | | | | | |
| There is limited access to technology necessary for capital market operations in Ethiopia. | | | | | |
| Limited access to reliable financial information and data is a challenge in establishing a capital market | | | | | |
| Weak corporate governance practices present a challenge to the establishment of a capital market. | | | | | |
| Political instability poses a significant risk to the establishment of a capital market. | | | | | |
| There is insufficient support from the government for establishing a capital market. | | | | | |
| There is a lack of trust among potential investors in the Ethiopian financial system. | | | | | |
| The current economic conditions in Ethiopia are not conducive to establishing a capital market. | | | | | |

Part IV: To examine how the limited financial infrastructure in Ethiopia can

be overcome to establish a thriving capital market, and to analyze the role of the government, financial institutions, and other stakeholders in addressing these limitations.

| Questions | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| The government should prioritize reforms to improve the financial infrastructure in Ethiopia. | | | | | |
| Public-private partnerships can effectively address financial infrastructure limitations. | | | | | |
| Insufficient infrastructure for securities trading and settlement poses challenges to the establishment of a capital market. | | | | | |
| Lack of efficient and reliable payment and settlement systems limits investor confidence and market participation. | | | | | |
| Limited availability of credit and financing options restricts capital market development. | | | | | |
| Financial institutions need to develop new products and services to support a capital market. | | | | | |
| Financial institutions have a responsibility to invest in upgrading financial infrastructure to support the establishment of a capital market. | | | | | |
| International organizations and development partners can provide technical expertise and financial support to improve financial infrastructure. | | | | | |
| Training and education programs are essential to build expertise in capital market operations. | | | | | |