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Challenges and Opportunities to Launch Ethiopia's Stock Market

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CHALLENGES AND OPPORTUNITIES TO LAUNCH ETHIOPIA'S STOCK MARKET

BY

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DECLARATION

I, Adonay Desta, the undersigned person declare that the thesis entitled, Challenges and Opportunities to Launch Ethiopia's Stock Market, is my genuine and original work; prepared under the guidance of Abebaw Kassie (PhD). All sources of materials used for this thesis have been duly acknowledged. I further confirm that it has not been submitted either in part or in full to any other higher learning institution for any academic purposes.

Name: Adonay Desta

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Date: July, 2022

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Abebaw Kassie (PhD) ________________________

Advisor Signature

St. Mary's University Addis Ababa, July 2022

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List of Acronyms

ACCA: Association of Chartered Certified Accountants

FDRE: Federal Democratic Republic of Ethiopia

PSSSA: Public Servants' Social Security Agency

POESSA: Private Organizations Employee's Social Security Agency

SPSS: Statistical Package for Social Sciences software

Abstract

The purpose of the study was to identify the challenges and prospects that exist to launch Ethiopia's stock market. The study used mainly a quantitative research approach and data was collected from both primary and secondary sources. A qualitative research approach was also used in the research to enhance the quantitative data. Primary data was collected through questionnaires and secondary data was collected from various credible sources. Convenience sampling was also used. A total of 123 responses from two different target populations were used. This research employed a descriptive research design. To analyze quantitative data descriptive statistics such as percentages, frequencies, mean and standard deviation were employed. The result of the study showed that unreliable accounting disclosures, scarcity of stock market-experienced professional fund managers, financial knowledge of potential investors, the high exchange rate of the birr against the dollar, and high inflation rate currently are among the challenges of launching a stock market in Ethiopia. The key findings of the study also revealed that the flourishing banking and financial sector are investment alternatives for the stock market, the readiness of accountants to participate in the stock market, the relative high rank of Ethiopia's GDP size and its growth, the new stock market regulations, and the potential Ethiopia's pension fund brings to the stock market as an investment base are the main opportunities that exist in Ethiopia to launch the stock market. The research concluded that the potential opportunities identified are vast and has put forward recommendations to reduce the expected challenges. Therefore, the researcher recommends the responsible bodies address the findings of the research to launch a successful stock market.

Keywords; Stock market, Pension fund, and Accountants.

Chapter 1

Introduction

1.1 Background of the Study

Capital markets are one of the main financial markets of the business world. They have been deployed over the world to finance and alleviate the financial scarcity needed to fund markets. It is evident capital markets have not developed in developing counties as they have in developed countries. Financial markets in the western economies have developed rapidly. In these markets, global institutional borrowers can raise billions of dollars (or other chosen currencies) of capital at a short notice and institutional investors can invest and reallocate their savings as needed. Both end investors and issuers use these markets to apply their risk-return assessments in their investment and issuance strategies (Sundaresan, 2008).

Development and establishment of capital markets are vital to finance businesses in developing countries. Strong and stable capital markets in emerging market economies can be achieved when all these four interrelated and complementary pillars have been met: macroeconomic stability, sound banking systems, high institutional quality and an adequate regulatory and supervisory framework (Rojas-Suarez, 2014). Various studies have been conducted on the needs to establish capital market in Ethiopia and the existing studies mainly focus on the benefits and challenges of establishing stock market in Ethiopia. The researches were conducted before Ethiopia passed a bill to form capital market through the house of people's representatives. The resolution was passed through proclamation No.1248-2021 to establish capital markets.

Ahferom (2011) identified the benefits of establishing stock market in Ethiopia which are its contribution to the economic growth, facilitates trading of shares, serves as an alternate source of finance, and improves accounting and auditing standards among others; consequently, reasons not to setup the stock market are unavailability of required institutional infrastructures, governments unwillingness to establish a stock exchange and unconducive policy environment. Complementing the development of the financial sector, channeling local savings to investments, reducing cost of capital requirements and unemployment in addition to offering liquidity to investment are benefits of establishing capital markets in Ethiopia recognized by (Bizuneh, 2020). Further the research distinguished challenges as, shortage of experienced expertise in the area and financial literacy of investors, lack of effective regulation and incapability of the financial infrastructure to handle the market.

On the other hand, a study by Rojas-Suarez (2014), discussed the benefits of deep capital markets in emerging market economies are, efficient allocation of resources by complementing banks' financial intermediation role, they can increase economic agents' capacity to manage financial risks and their resilience in the face of unexpected shocks. Despite these benefits, however, capital markets in most emerging economies remain thin and underdeveloped. Developing these markets is not an easy task, as it involves a large number of players and institutions, as well as complex building blocks, to ensure the efficiency and safety of their operations.

Even though establishing the stock market has a great contribution for the ultimately growth in the country by making capital resource flow easy from unproductive to very productive and profitable companies and there are different potential opportunities for the establishment of stock market. The launching of stock market in Ethiopia needs a number of prerequisites as per Esayas (2020) which are enhancing public institutional infrastructures, lessening macroeconomic and institution development challenges and mobilizing savings and opening and relaxing the economy. This is due to the fact that it is an alternative means for securing capital helping governments and private sectors to mobilize capital to finance a wide range of infrastructure thereby satisfying social needs as well as economic growth and jobs. The benefits the market brings are providing an alternative financial vehicle for individuals to meet their risk preferences and liquidity needs; stock markets also promote financial growth.

Various previous researches have considered the perspectives of banks, Ethiopian Ministry of Finance and Trade and the National Bank of Ethiopia but have not diligently included the opinions of pension fund, and certified accountants on stock market. Hence, the study contributes by providing new insights into the core pillars that directly influence to launch a successful capital market in Ethiopia to all the stakeholders, more specifically to the newly established Ethiopian capital market authority which is expected to commence by the end of 2022. Moreover, the study discusses new research gap in what the pension fund will bring as a potential investment resource for the newly to be launched capital market. It is expected that outcomes of this study will benefit the decision makers in developing, improving and pinpointing new perspectives to launch a successful capital market platform. This study will examine unique challenges to be addressed and previously unaddressed opportunities that exist to launch Ethiopia's capital market as it is a timely topic in the financial sector.

1.2 Statement of the Problem

An effective capital market has many opportunities it brings about to companies, government and individuals from issuing access to capital for companies to raising funds to finance government activities and wealth creation for individuals (The Securities and Exchange Commission, 2015). Singh (1991) has further strengthened the benefits of having a well-functioning stock market as it helps the development process in an economy through, growth of savings, efficient allocation of investment resources and better utilization of the existing resources.

However, there are many challenges developing countries face to establish and operate a successful capital market. Among the many challenges associated with developing securities markets in East Africa are laws and regulations that constrain issuance and trading of securities, the limited capacity of regulators to carry out their supervisory role or enforcement, limited technical expertise and fragmented market information on products, as well as inadequate technology and market infrastructure (Kibuthu & Osano, 2010).

Despite the extensive studies on the challenges and opportunities of establishing capital market in Ethiopia, there still exists a research gap in studying all the influencing parameters of Ethiopia's stock market as specified on the research gap sections of previously conducted studies. Previous studies have mainly focused on the regulatory framework required to establish stock market, banks and insurances as sources of investment (Getachew, 2016; Teferi, 2021). Further, these researches have used officials from the National Bank of Ethiopia, Ministry of Finance, Ministry of Trade, and bank shareholders as their source of population study. Moreover, factors related to new investment options for the stock market, current economic status of Ethiopia, stakeholders and professionals expected to participate in the stock market were not investigated in previous researches.

Therefore, this study tried to fill the research gap by studying the parameters after the bill to launch the capital market has been passed by the House of people's Representatives of Ethiopia. It will mainly focus on variables that were not considered in previous researches, which are grouped under pension funds, economic factors, accounting standards and financial literacy. This study attempted to study the opportunities and challenges that exist to launch Ethiopia's capital market by including new perspectives of stakeholders of the sphere. The aim of this research was to study the Ethiopia's pension fund as source of investment for the stock market, the readiness of accounting standards and professionals to launch the stock market, and to assess the economic status of Ethiopia in relation to stock market.

1.3 Research Questions

- Does the pension fund of Ethiopia see the stock market as an investment opportunity?
- Is Ethiopia's economic status ready for the stock market?
- Do the current accounting standards and professionals meet the requirements to launch the stock market?
- Are accountants informed and ready to participate in the stock market?

1.4 Objective of the Study

1.4.1 General Objective

The general objectives of this study are to identify the existing challenges and opportunities that exist to launch Ethiopia's stock market.

1.4.2 Specific Objectives

The specific objectives of this research are listed below.

- To assess if Ethiopia's economic status is ready to launch the stock market.
- To identify if the current accounting standards can handle the stock market.
- To determine if the pension fund can be used as a potential investment in Ethiopia's stock market.
- To assess professionals' readiness to participate in the stock market.

1.5 Significance of the Study

This study provides insights into the launch of stock market in Ethiopia. The main objectives of this study are to know the challenges and opportunities to launch Ethiopia's stock market. Specifically, the research assesses if Ethiopia's economic status is ready to launch the stock market. And identifies if the current accounting standards of Ethiopia can handle the stock market. Also determines if the pension fund can be used as a potential investment in Ethiopia's stock market. Finally, it assesses the public's readiness to participate in the stock market.

Further, this study distinguishes how to successfully launch stock market development. Thus, this study helps to minimize the challenges and risks to launch a viable stock market. Besides, this study gives clues for high level of stock market development. On other hand, the findings of the study provide accurate information to the policy makers, so that they can use it as input in their policy development. The study also provides information to the government to launch the recently legislated stock market. It serves as a reference for the upcoming new researchers on related topics while doing their research. The study also helps the responsible body that works on the establishment of stock exchange in Ethiopia on the preconditions.

This study gives additional contribution to the existing work on the application of various financial, market and investment theories will be discussed here, investors, managers and other stockholders will obtain integrated information about launching stock market. The study helps to establish an organized and regulated financial markets where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply. It also helps to give clues to kick off primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channeling savings of the investors into productive ventures; and secondary markets where investors can sell their securities to other investors for cash. It also helps to reduce the risk of investment and maintaining liquidity in the system. It focuses on electronics stock market that can be reflected as a form of remote or virtual marketing, which is essentially the delivery of financial services via telecommunication devices.

1.6 Scope of Study

The main objective of this study was limited to identifying the challenges and opportunities of launching Ethiopia’s stock market. This study had an expected limitation in the amount of data, it used because the research focused on accounting experts and fund managers as participants of stock market. And used two sources for its primary data namely members of ACCA Ethiopia and employees at the two social security agencies that are the FDRE private organizations' employee’s social security agency and the FDRE public servants’ social security agency. The study also used other relevant secondary sources of data. Of the many factors involved in stock markets the study analyzed the following factors; pension fund as an investment option, the state of Ethiopia’s economy, existing accounting standards and professionals and finally accountants’ knowledge and readiness to participate in the stock market.

1.7 Limitation of the Study

The purpose of this study was limited to identifying the challenges and opportunities to launch Ethiopia's stock market. The study focused precisely to identify challenges and opportunities that exist under the scheme of the pension fund as an investment base, financial literacy and awareness, economic size and development, and accounting and auditing standards. Other factors categorized under institutional, demand and economic policy factors that are not mentioned above are not the focus of this study. Specifically, this study discounted to analyze monetary, foreign participation and fiscal policies including, banking sector development, political stability, and portfolio capital flows in Ethiopia.

Moreover, this study did not include other factors such as tax regulation, stock exchange's marketing strategy, trade networking, and foreign participation policy that have direct relationships with the launching stock markets. The study is limited to include only respondents from Addis Ababa and some targeted research participants from within the city. The sample population selected for this study was limited to ACCA Ethiopia certified members and professionals working in the investment and fund management directorate, at both the social security agency and public servants' social security agency.

1.8 Organization of the Study

The study is organized into five major chapters. The first chapter is an introductory part composed of the background of the study, statement of the problem, research questions, objectives of the study, significance of the study, scope, and limitation of the study. The second chapter deals with review of related theoretical and empirical literature, and conceptual framework. The third chapter focuses on the research methodology. The fourth chapter focuses on data presentation, analysis and discussion and the fifth chapter covers summary, conclusions, recommendations, limitations of the study and recommendations for future research.

Chapter 2

Literature Review

2.1 Theoretical Literature Review

2.1.1 Introduction

The financial market handles the exchange of assets and is made up by several separate markets for various types of asset classes. Capital markets provide trading services for long-term securities such as shares and bonds (with a maturity of more than one year). Other markets include money markets (for shorter-term bonds); currency markets (for foreign exchange); commodities markets where anything from metals to grain is traded; mortgage markets for property debt; and derivatives markets with products based on the underlying assets of all previously mentioned markets and more (Saunders & Cornett, 2004).

Whereas the term stock can be defined as "the capital or principal fund raised by a corporation through subscribers' contributions or the sale of shares" (Black, 1991). Stock represents a share of ownership in a corporation (Mishkin, 2004). Such kinds of stocks could be identified as security representing equity claims on the earnings and assets of the corporation. In this comment, the term stock is used interchangeably with the term share. Stocks are generally traded in stock market. Stock market refers to capital market in which stocks of corporations are sold to investors. In simple terms, it is a market place where equity interests are exchanged either at par value, premium value or for less than the par value – also called discount stock (Wei, 2005). Thus, stock market allows stockholders (shareholders) to transfer to another investor when they want to sell their stocks.

It should be noted that stocks could be sold and bought in primary capital market. In primary markets, new business can start by obtaining funds directly from households in which new stocks are sold to investors via the mechanism of underwriting (Teklehaimanot, 2014). The selling of common stock to the public through Initial Public Offering (IPO) in the primary market is an instance whereby widely held share companies under formation offer new shares to the investors (Tikikile, 2011). It is vital not to lose sight of the fact that secondary markets play an important role in the regulation of initial public offering of shares through the listing standards, subject to the discretion of stock exchanges (Christiansen, 2009).

On the other hand, in the secondary market, existing stocks are sold and bought among investors or traders in the stock market through stock exchange. Furthermore, secondary market could be either auction market or dealer market. While the stock market is part of an auction market, over-the counter (OTC) is part of the dealer market. The difference between stock market and OTC is that the former exchange market operates in a structured manner and physical facility with a trading floor to which all stock transactions are supposed to be directed. However, OTC market traditionally operates in unstructured manner without any physical facility in which any qualified firm freely engages in the transactions of stocks (Ratner, 1980).

At this juncture, it is also vital to differentiate bond and stock. Bond is a security instrument which is used either by the government or any other corporation to raise funds in the bond market (Rose, 1986). Unlike stock which as indicated before is an equity instrument, bond is a debt security evidencing that a promise has been made by a government such as Treasury Bills (T-bills) or by corporation such as debenture to pay a specified amount of money in recognition of a loan to the business. Like stock, a bond is another way of obtaining funds but this time "representing funds borrowed by the corporation or the government from the holder of the debt obligation". It should be noted that both stock markets and bond markets are categories of capital market. Like stock market, bond market helps bond holders to transfer their bond to third party when they want to sell it in the secondary market or use it as collateral to get loan from banks. As the title indicates, this comment deals with stock market in the context where corporations or individual investors sell and buy shares and hence will not deal with bond and bond markets. But it should be noted that some literature generally uses stock market to include the trading of also bonds (Mengesha, 1998).

In brief, a stock market is an open market place which provides facilities for stock brokers, investors and corporations to trade in stocks. Stock markets generally provide the means by which companies raise capital to start new business or expand the existing business by offering new stocks to the public. It also provides a trading facility for investors to sell their share ownership in corporations. Unlike the bond market, stock market provides an opportunity for companies to finance their business through equity investment. When companies or governments need funds to execute any task, they can approach the capital market for the funds they need using any of the securities (instruments) such as equities (ordinary shares), debts instruments (bonds, debentures or preference shares) (The Securities and Exchange Commission, 2015).

2.1.2 The International Scene

Capital markets are found in several countries. According to the International Stock Exchange Directory issued by the International Federation of Stock Exchanges as of 2016, there are 60 stock exchanges in the world. Of these, there are 16 exchanges with a market capitalization of $1 trillion or more, and they account for 87% of global market capitalization. The total market capitalization of all publicly traded securities worldwide rose from US$2.5 trillion in 1980 to US$93.7 trillion at the end of 2020. In more mature economies, stock exchanges are found in several major cities. Among the biggest stock exchanges in the world are New York, Tokyo, London, Paris, Frankfurt, Zurich, Amsterdam, and Toronto. Some of these stock exchanges have long history (The World Federation of Exchanges, 2016).

But stock exchanges are no longer the monopolies of the developed world. Over the past decade, there has been a rapid growth of stock markets in the developing world. The growth has been more spectacular in Latin America, East European countries and countries in the Far East. In Africa as well several countries have set up nascent stock exchanges. In Sub-Sahara Africa, for example, Botswana, Ghana, Kenya, Mauritius, Nigeria, Namibia, Swaziland and Zambia have set up stock exchanges. According to a report by the World Bank, developing country stock markets or emerging markets as customarily called increased their aggregate market capitalization to US$ 119.6 billion in 2006. The number of listed companies in these emerging markets has also increased considerably over the same period. It is also interesting to note that, in the past decade, securities traded on those markets had generally yielded much higher returns than those traded in the stock exchanges of the more mature economies (Beck et al., 2017).

These international developments have had a profound impact on the way foreign investments are made. The traditional vehicle for foreign investment has been up until recently what is called direct investment. According to this modality of investment, a company identifies an investment opportunity in a foreign country, establishes the feasibility of the opportunity, makes the necessary legal arrangements, and invests its capital. This way of making foreign investments is increasingly giving way to other modalities thanks to the globalization of capital markets. These new modalities include portfolio investment through specialized country funds, direct purchase of foreign securities offered internationally, and investing in foreign companies by buying their shares in the respective stock exchange (Bizuneh, 2020).

2.1.3 Ethiopia's Capital Market Historical Reference

Ever since the abolition of the Addis Ababa Share Dealing Group almost half a century ago, no capital market has been operational in Ethiopia. The nation's short-lived stock market, under the administration of the National Bank of Ethiopia, was informally launched in the late 1950s. It was instituted in 1965 and successive attempts were made to put in place a capital market that bore little fruit. Efforts were exerted by scholars from academia, the Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) and National Bank of Ethiopia (NBE) to also introduce a local stock market. The first share that was offered for public subscription was issued in 1956 by a company called Ethiopian Abattoirs. In the years that followed a number of other companies issued varying amounts of shares for public subscriptions. These companies included among others, the Bottling Company of Ethiopia (1957), Indo-Ethiopian Textiles (1958), and Addis Ababa Bank (1963). Total investment in major publicly issued shares during the period 1959- 1963 was close to Birr 61 million. Of this amount, close to Birr 41 million (or 67% of the total) was invested by foreign companies (Tiruneh, 2012).

With the growth of share trading in Addis Ababa the then State Bank of Ethiopia formed a share exchange department in 1960 in order to encourage trading and holding of shares. The formation of the department was the first step in institutional arrangement for share trading in Ethiopia. Through this department, the Bank had acquired shares in many of the larger companies when they were formed and played an important role as their underwriter. Its portfolio of shares was adequate to support over-the-counter operations. The department was controlling the volume of transactions at its over-the-counter facilities through prices. It was setting prices by trial and error and by encouraging third parties willing to purchase or sell shares to quote their own bid or ask prices. The prices so set were posted regularly at the Bank 's main office in the Piazza. The Bank was also advancing loans against shares pledged as collateral by suitable borrowers. These loans were used for personal purposes or as margins to finance share purchases (Jetu, 2014).

By 1965 the share market had expanded considerably. The quickening pace of economic development at the time led to an increase in the rate of formation of new companies. This resulted in an increasing number of new issues of shares made each year which in turn strained the department's resources for underwriting. On the other hand, other financial institutions had by then initiated their own share brokerage and dealing operations. There had also developed fears of market dislocations when two large companies established by public subscriptions of shares started to experience financial difficulties. At this point, an alternative institutional arrangement was called for. The National Bank of Ethiopia, the successor of the State Bank of Ethiopia, took the initiative to set up what was then called the Share Dealing Group. The Group consisted of six institutions which were represented by their respective General Managers or Managing Directors and one individual. The members of the Group were the National Bank of Ethiopia, Addis Ababa Bank, the Commercial Bank of Ethiopia, the Development Bank of Ethiopia, The Investment Bank of Ethiopia, Sabean Utility Corporation, and a certain individual called Mr. Alfred Abel (Araya & Tadewos, 1994).

Another important landmark in the history of Ethiopian share trading is the enactment of the Commercial Code of Ethiopia in 1960. The Code consists of five books and over 80 chapters all in all, and covers, among others, such topics as business organizations, carriage and insurance, games and gambling, negotiable instruments, banking transactions, bankruptcy, and schemes of arrangement. As share companies started to flourish in Ethiopia in the 1960s, shares were being traded by the NBE. Later on, the Addis Ababa Share Dealing Group was established to trade shares and government bonds in 1965. The Group started with the listing of 15 companies and four government bonds. The number of companies listed reached 17 the next year. With a socialist government coming to power, led by the Derg, which overthrew the imperial regime in 1974, all the traded companies were nationalized, and consequently, the stock market was shattered (Ahferom, 2011).

The Ethiopian Government recently as part of the requirements to stabilize the macro-economic stability, and make improvements to financial access and the development of a capital market, where securities such as shares, bonds and derivatives are bought and sold. As a result, the National Bank of Ethiopia (NBE), which is the central bank of the country, was tasked to prepare the legal framework and came up with a draft capital markets proclamation, which was later approved and enacted by the Federal Parliament in its regular session held on June 10, 2021, as Proclamation No. 1248/2021. Consequently, actions are being taken by the government to operationalize the

Ethiopian Capital Market Authority and the Ethiopian Securities Exchange through public-private partnership arrangements.

2.1.4 A Framework for Stock Market Development

Generally speaking, stock markets grow as a result of participation by both issuers (supply), and investors (demand). Issuers and investors will participate in a stock market if they expect economic benefits (Adarov & Tchaidze, 2011). Further, participation will occur where a fairly comprehensive range of economic and institutional factors exist. The supporting blocks to support market could include factors such as economic policies conducive to investment and an adequate institutional context. If the supporting blocks are inadequate, the market may exist, but most likely it will not function well and will not become a developed market. There are four broad factors which influence the development of stock markets: supply factors, demand factors, institutional factors, and economic policies (El-Wassal, 2013).

The main determinants of stock market development are classified into four sets of factors which are: supply factors, demand factors, institutional factors and economic policies. Demand factors are those that affect investors' decisions regarding investment in stock markets while supply factors are those that affect companies' decisions to issue shares. Taken together, both sets of factors serve as "building blocks" of the stock market. And the supporting blocks include mainly institutional factors and economic policies. High quality institutions are, as well, important determinants of stock market development: well-established institutions enhance investor confidence just as appropriate economic policies are conducive to the development of stock markets (Adelegan & Radzewicz-Back, 2009).

Finally, three principles concerning stock market development are worth highlighting. First, stock market development is a difficult, complex, multi-faceted, and long-term process. History has shown that the stock market will most likely be the last market among financial markets to develop (El-Wassal, 2013). For investors, shares are the riskiest of the standard financial assets while for companies, issuing shares is the costliest way to raise funds. Not surprisingly, stock market development may take a long time. Secondly, stock market development is part of a process of development of a financial system. A stock market cannot be developed in the absence of a financial system that is both developed and balanced. Third, the development of a stock market is primarily a private sector activity. Still, it must be remembered that the supporting role of the government is crucial for a market to develop. The experience of stock markets in developed countries shows that the development of a stock market cannot be isolated from solid institutional structures (El-Wassal, 2013).

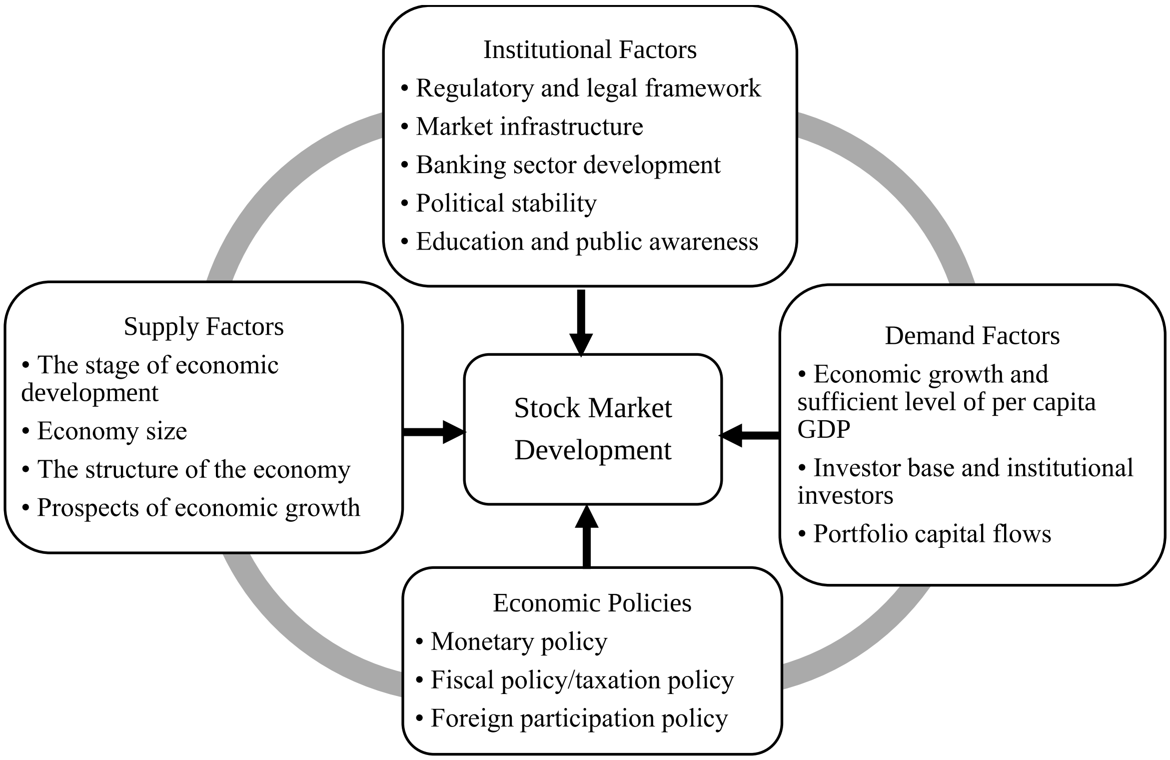


Figure 2.1 A Framework for the Development of Stock Markets, source (El-Wassal, 2013)

2.1.4.1 Supply of Shares

The cost of financing is the main determinant of “going public” for a firm. According to the “pecking order” theory of capital structure, internal financing should be the first choice of the firm, with debt being the second choice. Debt is in second place as it is more costly than internal financing because of both the interest costs and the costs associated with issuing debt. Equity issuing comes third among the choices available to the firm for financing as it is even more costly than debt. Generally, there are three main types of cost commonly associated with issuing shares. First, there is the cost of distributing dividends to shareholders, which is generally done on a continuous basis, in contrast to a debt contract (e.g., issuing bonds). Second, since equities are among the riskiest assets, investors will not hold shares unless the expected return is significantly higher compared to other investment alternatives. Third, equity issuance is more costly than debt due to the underwriting commission and the cost of information (Chami et al., 2009). In short, issuing equity would be considered the last resort for financing a firm. Further, to raise capital in stock markets, companies must meet the listing requirements of stock exchanges for publicly traded companies as well as the financial reporting and control requirements imposed by securities market regulations. The explicit compliance cost of these requirements is significantly high. More to the point, raising capital in stock markets has several costly implications for corporate governance:

i) Decisions and actions of the company's managers become more visible as the company's financial data is disclosed through financial statements and other required filings;
ii) Another layer of management is imposed on the firm, namely representatives of shareholders on the board of directors; and
iii) Time and effort must be devoted by the firm to managing its relationship with shareholders. These requirements and responsibilities imply both a significant cost and a certain loss of control for both owners and managers of the company (Chami et al., 2009).

Macroeconomic factors that significantly affect the supply of shares and thereby the development of stock markets other than costs are;

(i) Stage of Economic Development

Broadly speaking, economic development is expected to positively affect stock markets. Underdeveloped economies usually have a volatile investment environment, weak institutional and legal frameworks, poor governance, lack of transparency, and above all low levels of per capita income. All these factors impede stock market development and at times even make the establishment of a stock market superfluous.

(ii) Size of the Economy

An economy large enough to support a stock market is a necessary prerequisite for the development of a stock market. Without a sufficient supply of shares, trading will be limited and the market may not be economically viable. A small size economy most likely would not have a deep, liquid stock market as such economies are usually characterized by price volatility. In addition, it may be that small economies do not have deep stock markets since they lack efficiency of scale. Consequently, the amount of capital raised from issuance may be too small to attract potential issuers, portfolio managers, or even a reasonable base of local investors to justify inclusion by leading investment funds (Adelegan & Radzewicz-Back, 2009).

(iii) The Structure of the Economy

The structure of the economy, the relative proportion of shares representing the primary, industrial and service sectors, is an influential determinant of stock market development. In addition, whether the industrial base is dominated by large companies or dominated by small and medium-sized companies has significant implications for the supply of equity (Roc, 1996). Primary sector-driven economies and/or economies with an industrial base dominated by small enterprises would most likely not have active stock markets due to the limited capital requirements of such enterprises. This in turn makes it easier and cheaper for them to raise capital through banking finance, which ultimately limits the supply of equity. However, economies with a large manufacturing base dominated by relatively large companies are more likely to have a sufficient supply of shares.

(iv) Prospects for Economic Growth

The literature on initial public offerings (IPOs) emphasizes the importance of growth opportunities in explaining capital-raising behavior. Companies usually increase investment and expand productive capacity to meet future expected demand for their products. Sustainable positive rates of economic growth steer to new markets as well as greater opportunities for companies to grow and make profits (Sudweeks, 1989). This serves as an inducement for companies to obtain financing by raising equity to expand operations. Consequently, the supply of equity is more likely to increase. In addition, a low number of listed companies induces speculative activity as the limited number of shares actually available for trading is considered an “open invitation” to speculators.

2.1.4.2 Demand for Shares

The demand for equity (investors) is the second building block of the stock market. Potential shareholders/investors have preferences over risk-return combinations for the funds they invest in some prefer high risk-high return combinations, while others prefer low risk-low return. In general, these investors have three main concerns. First, since equity is one of the riskiest investment alternatives, shareholders invariably expect a higher return. Second, shareholders need to monitor the use of their funds and require a disclosure of information that enables them to make sure that the management runs the firm in a way that maximizes their returns on investments. Third, investors are always keen to be able to liquidate their shares at any point in time. Still, investors will be willing to hold shares with a higher expected return in a liquid and informative stock market (El-Wassal, 2013). There are a number of other factors that significantly affect the demand for shares and, in turn, the development of stock markets.

(i) Economic Growth and a Sufficient Level of per capita GDP

Economic growth and per capita GDP are crucial and strongly linked determinants of stock market development. Higher economic growth rates allow more people to invest in shares. A rise in per capita income increases an individual's ability to save or invest. However, the increase in per capita income should be considered with caution, for individuals will only invest after satisfying their basic needs. That is to say that a sizeable per capita increase in income if realized from a low base will be largely directed toward more consumption, and thus will not significantly increase investment, if it does so at all (Roc, 1996). In other words, it is not only the increase in per capita GDP that matters, but also – and perhaps even to a greater extent - the level of the per capita GDP (El-Wassal, 2013).

Greater individual financial wealth and positive economic prospects bring about changes in saving and investment habits as well as in risk-sharing behavior of individual households. In their search for higher returns, individuals may shift from deposits into bank accounts to investment in shares. In this regard, Ayling (1986) argues that financial markets in less-developed countries are likely to remain small unless economic growth in these countries can catch up with the rest of the world. Calderon-Rossell (1991) also concluded that "in general, economic progress in all regions, with a few exceptions, was the fundamental force behind stock market growth". One might argue keeping other factors constant that there may be some sort of "multiplier" effect between economic growth and stock market growth. That is, the higher the per capita GDP and the greater the wealth per capita, the more investment there will be in stock markets, and the more liquid that market will be. Greater liquidity will induce more companies to list their shares because of the increase in price per share. Ultimately, higher levels of investment and growth will be attained.

It is worth noting that income inequalities may weaken the link and the possible multiplier effect between economic growth and stock market development. Put differently, the larger the share of the population living at the subsistence level, the smaller will be the percentage of the population economically able to participate in the stock market (Roc, 1996). To account for the possibility of having a low per capita GDP base along with income inequalities, the saving rate could be used as a reasonably good proxy for the relationship between economic growth and per capita income and the individual's ability to invest in stock markets.

(ii) Investor Base and Institutional Investors

Stock market development requires a deep and diverse investor base. The lack of a diversified investor base and heavy reliance on captive sources of funding are two of the main factors behind the shallowness and insufficient liquidity of stock markets. The investor base should be diversified and composed of institutional investors (e.g., mutual funds, pension funds and insurance companies) and other financial institutions dealing in different levels of risk and targeting different economic sectors. These institutional investors can play a crucial role in the accumulation of funds and their channeling into stock markets. Institutional investors are, in fact, usually the largest investors in stock markets in developed economies (El-Wassal, 2013).

In general, institutional investors can support the development of stock markets in various ways:

i. They enhance market competition and act as a balancing influence in bank-dominated financial systems and represent an alternative savings vehicle to banks for individual investors;
ii. Institutional investors also help to address the problem of information asymmetry between company management and individual investors as they impose discipline on company management via transactions in company stocks;
iii. Institutional investors may encourage more issuance of shares, which in itself increases the liquidity of the market;
iv. A wide range of investors who differ in their risk preferences and expectations results in rapid price discovery from trading and reduces vulnerability to shocks that would otherwise destabilize the market; and
v. Institutional investors also support the emergence of market makers, which improves market liquidity (Iorgova & Ong, 2008).

However, institutional investors should not be so large that they dwarf and dominate the market but large enough to take risks and position themselves advantageously (El-Wassal, 2013).

The development of a diversified investor base is a complex process that is related to fundamental public policy issues such as pension funds policy (Árvai & Heenan, 2008). In other words, generating significant changes in the composition of the investor base is critically dependent on public policy decisions and requires structural and fiscal changes as well as regulatory incentives and stock market development strategies, all of which are closely linked to the state of development and sophistication of a country's financial system.

(iii) Portfolio Capital Flows

Foreign participation in stock markets enhances domestic demand for shares. In addition, the long-term impact of foreign capital inflows on the development of stock markets is broader than the benefits from initial flows and increased investor participation, since foreign investment is usually associated with institutional and regulatory reforms, adequate disclosure and listing requirements and fair-trading practices. Improvements in informational and operational efficiency are expected to inspire greater confidence in domestic markets (Errunza, 2001)

Restrictions on foreign participation in stock markets may contribute to insufficient depth and liquidity in the market, particularly in the absence of a strong and diversified domestic investor base. However, the mode and the sequencing of the entry of foreign investors has to be carefully considered, as experience has shown that there is considerable risk associated with participation by nonresidents, who have access to alternative investments and thus may manifest more volatile demand.

2.1.4.3 Institutional Factors

Institutional factors represent the first supporting block of stock market development. These include a wide range of factors such as regulations affecting public issuers of securities, market intermediaries, asset management, supervision and enforcement tools, trading payments and settlement systems and corporate governance and transparency. An adequate institutional framework is expected to have a significant positive impact on the development of a stock market. On the one hand, investors will feel more confident regarding property rights and information transparency, which could encourage them to invest in stock markets. On the other hand, by reducing the cost of transactions and increasing market liquidity, equity would be a more attractive source of financing for firms (Adarov & Tchaidze, 2011).

Good institutions may positively affect the development of stock markets through at least two channels. First, adequate institutions augment economic growth by enhancing market fundamentals, promoting trust, and facilitating exchange. Second, better institutions mean better protection of property rights, less corruption and more transparency, all of which foster investor confidence and ultimately increase the demand for securities (Billmeier & Massa, 2007).

(i) Regulatory and Legal Framework

An adequate regulatory framework is crucial to the development of stock markets. A strong and transparent regulatory and legal framework needs to be developed for public issuers of securities, market intermediaries, asset management products, payment and settlement processes and transparency requirements. Regulations need to address asymmetries of information between issuers and investors, clients and financial intermediaries and between counterparties to transactions; and should ensure smooth functioning of trading and clearing as well as settlement mechanisms that will prevent market disruption and foster investor confidence (Carvajal & Elliott, 2007).

The core of regulating public issuers is to ensure full timely and accurate disclosure of relevant information to investors so as to enable them to make informed decisions. Disclosure obligations should be imposed on issuers both at the moment of authorization for public offering and on an ongoing basis. One of the main responsibilities of the regulator is to ensure that mechanisms are put in place to ensure the reliability of the information provided by issuers. In this regard, adequate corporate governance is needed to ensure effective accountability of management to shareholders. (Claessens et al., 2007).

The main purpose of regulating market intermediaries is to ensure that brokers, dealers, and financial analysts enter and exit the market without disruption, conduct their business with their clients with due care, and conduct fair trade using stock markets. Tools for regulating intermediaries include licensing requirements and market business conduct obligations (Carvajal & Elliott, 2007).

Regulation of asset management seeks to ensure professional management and adequate disclosure of investments to the investors. In addition, stock market regulations should ensure the smooth functioning of the market by ensuring fair access to adequate price formation, by limiting the disruptive effects that the failure of an intermediary could have on the market, and by ensuring that market participants settle their trading obligations in an orderly and timely manner (Carvajal & Elliott, 2007).

One important aspect of the regulatory and legal framework is establishing a supportive infrastructure for contract enforcement and dispute resolution. This infrastructure has many features that collectively are known as the "rule of law". Rubio (2001) argues that there are three key features of the rule of law in financial markets. First, it includes both political and legal guarantees of civil liberties and property rights. Second, the rule of law presumes an efficient judicial system that cuts transaction costs and limits predatory behavior. Third, it establishes legal security, meaning that under this rule of law citizens can plan their future courses of action and execute these plans in a context of well-known rules that will not be changed arbitrarily.

The International Finance Corporation (IFC) has introduced seven regulatory indicators to assess regulatory frameworks of stock markets. These indicators address the following areas: whether companies listed in a stock market publish price-earnings information, accounting standards, the quality of investor protection, whether the country has a securities and exchange commission or not, restrictions on dividend repatriation by foreign investors, restrictions on capital repatriation by foreign investors and restrictions on domestic investment by foreigners.

El-Wassal (2013) noted that excessive regulation can stifle stock market development. In principle, stock markets should not be over-regulated in areas where free market forces should prevalent and should not be under-regulated where a normal regulatory framework should be in place to support market confidence.

Shareholder Protection; One of the key regulatory determinants of stock market development is the level of shareholder protection in publicly traded companies, as stipulated in laws regulating companies or securities (Shleifer & Vishny, 1986). In other words, stock market development is more likely in countries with strong shareholder protection because investors do not fear expropriation. By using indicators of the quality of shareholder protection, La Porta et al. (1999) provided evidence of the importance of rights protection for minority shareholders.

Corporate Governance and Transparency; In general, corporate governance refers to the structure, rules and institutions that determine the extent to which managers act in the best interest of shareholders (Claessens et al., 2007). Corporate governance entails the adoption and implementation of well-developed securities and bankruptcy laws, credible accounting and auditing standards, and enhanced regulation and supervision as well as stronger enforcement of private contracts. Strong corporate governance and financial transparency are critical for the development of stock markets due to the fact that they enhance investor confidence and increase equity investment.

(ii) Market Infrastructure

The provision of a robust financial infrastructure for trading, clearing and settlement of transactions is generally considered to be a public good (International Monetary Fund, 2003). The absence of a sound and efficient market infrastructure linking the counterparties in securities transactions makes the development of stock markets unlikely. An inefficient securities settlement structure is a fundamental impediment to stock market development as it raises settlement and operator risk, increases transaction costs, hinders price discovery and may restrict the range of participants in the market (Árvai & Heenan, 2008). The government may play a crucial role in providing the infrastructure needed to facilitate the flow of information along with the price discovery process to support the development of stock markets that are both competitive and efficient. There are various types of infrastructure that governments need to build. These would include the following elements: a modern payment system for clearing and settling securities transactions, retail payments and large value payments as well as a physical infrastructure for the operation of primary and secondary markets (El-Wassal, 2013).

Dealers and Brokers (Intermediaries); One of the most important elements of the infrastructure required for stock market development is the existence of experienced “dealers”. The activities of dealers and brokers make equity significantly more attractive to investors and companies as they facilitate the exchange of shares.

Market conditions are critical in attracting dealers and brokers. Particularly, three conditions must be satisfied. First, both supply and demand for shares should be sufficiently large: a larger number of buyers and sellers means more opportunities for brokers and dealers to serve as intermediaries and make profits. As well, stock market regulations and rules must be conducive to trading.

Thirdly, an efficient trading mechanism must be in place, a mechanism that supports a clearing and settlement system which reduces transaction costs (Chami et al., 2009).

Trading System; Stock markets can be differentiated by their trading systems. Trading systems vary in the way transactions are handled, types of transactions made, types of information available to market participants, and the process of matching orders to sell and buy (Glen, 1994). Electronic trading systems can increase liquidity and improve efficiency by reducing transaction costs and increasing information availability. Modern trading systems may also attract new pools of liquidity by providing affordable remote access to investors. Based on data from stock exchanges in 120 countries, Jain (2005) found that the introduction of electronic trading systems enhances liquidity and leads to a reduction in the cost of capital.

(iii) Other Institutional Factors

Political Stability; Political instability negatively affects the development of stock markets. In countries with unsettled political conditions, there is little interest in investing in shares because equity is usually a medium-to long-term form of investment (Sudweeks, 1989). Further, political instability encourages alternative forms of savings other than equity investment. So, it can be seen that political instability affects stock markets through its direct impact on investors' confidence as well as its indirect impact on economic performance (Roc, 1996).

Education and Public Awareness; Poor understanding of issues on the part of the public discourages potential investors from participation in stock markets. Roc (1996) argues that the propensity to invest in shares rises with the level of education. That is, a higher level of education increases confidence in stock markets by contributing to a higher level of knowledge concerning financial activities. Without an educated public which understands the fundamental rules, benefits, and potential pitfalls of participating in financial investment, stock markets may not be able to develop. El-Wassal (2013) also stated, an educated population can increase the number of available professionals (e.g., financial analysts, accountants and regulatory analysts) necessary for the development of an institutional and regulatory framework.

Availability and Quality of Information; The availability and quality of information is essential for building investor confidence. Uncertainty resulting from limited or poor-quality information may be a major disincentive to investment in stock markets. Four main factors may contribute to insufficient and/or poor-quality information as per (El-Wassal, 2013):

i) Lack of standards governing tight and effective financial disclosure requirements;
ii) Inadequate or inactive accounting standards and lax auditing practices;
iii) The absence of a competent stock broking industry, which limits available research on stocks and markets; and
iv) The lack of competition between firms.

When demand for equities outstrips supply, companies are not obliged to provide extensive information in order to place their shares (Roc, 1996). However, Dickie & Layman (1988) argue that inadequate financial information should not be overestimated as typical small investors usually are unable to understand financial reports. Yet, adequate information is highly required for institutional and other investors.

2.1.4.4 Economic Policies

A stable macroeconomic environment is crucial for the development of stock markets. Rational and predictable macroeconomic policies enhance investors' confidence in the market and create an environment conducive to investment decisions. In addition, corporate profitability can be affected by changes in monetary, fiscal, and exchange rate policies.

(i) Monetary Policies

Prudent monetary policies can facilitate stock market development. Rational management of monetary policies ensures greater confidence in the stability of the economy as macroeconomic volatility magnifies the asymmetric information problem. First, interest rates have a critical effect on the desirability of shares in an individual's portfolio of assets. Investors are concerned with real returns, not just nominal returns. Consequently, momentary policies should insure an attractive long-term yield for equities compared to other domestic and foreign investment alternatives. Negative real interest rates force investors to shift to other less risky assets or countries. That is to say, low and predictable rates of inflation are more likely to contribute to stock market development. Both domestic and foreign investors will be unwilling to invest in a stock market in which high levels of inflation are expected (Yartey & Adjasi, 2007). Second, the stability of the short-term interest rate increases investor confidence in long-term securities, including equities, and promotes maturity transformation by financial intermediaries. Third, effective implementation of monetary policies ensures adequate liquidity to market makers which may reduce the volatility of stock markets. It is also worth mentioning that attracting foreign portfolio investment requires rational exchange rate policies.

(ii) Fiscal/Taxation Policies

Taxation policies have a great influence on investor participation in stock markets since investors are concerned with the after-tax real return on investment. Unequal taxation favoring other alternative forms of investment such as bank deposits would shift investor interest from investing in equities. In many countries, equities are subject to double and even triple taxation. First, there is taxation at the corporate level before the distribution of dividends. Second, there may be taxation at the individual level and if returns on equities are taxed, there may be triple taxation (Sudweeks, 1989).

Prudent corporate tax policies help to develop stock markets since high corporate taxation can limit the after-tax profit available for dividends distribution, which may in turn negatively affect investors' willingness to invest. Tax policies not only affect investor participation in the market, but also affect the supply of equities. That is, tax incentives to going public could encourage companies to go public and thus increase the supply of equities.

(iii) Institutional Investors Policy

Institutional investors may play a determining role in stock market development. Yet, this role in turn is significantly influenced by institutional investors' policies. For instance, limiting the possible range of financial assets for mutual funds, pension funds, and insurance companies to low-yield government securities or imposing a high percentage of government securities could be a major deterrent to stock market development (Sudweeks, 1989). A reasonable and active level of participation by institutional investors is of great importance for a stock market. It is also important to note that a stock market without institutional investors is prone to greater risk from individual speculators. However, a balance between the two goals is required. On the one hand, institutional investors must have a significant and active presence in order for stock market development. On the other hand, the interest of investors in mutual funds and pension funds (e.g., retirees) should be protected from high-risk investments.

(iv) Foreign Participation Policy

There is consensus on the important role played by foreign portfolio investment in stock markets. While it has played only a minor role in most developing economies, it does play an important role in countries such as Hong Kong and Mexico (Sudweeks, 1989). International asset pricing models suggest that the integration with world financial markets should lead to a reduction in the cost of capital (Stulz, 1999). Stock market liberalization increases the pool of capital available to local companies and broadens the investor base, which could lead to increased liquidity. It could as well improve the quantity and quality of information available to market participants. In addition, the scrutiny of foreign investors and analysts may increase transparency and promote the adoption of better corporate governance practices as well as reducing agency problems (Errunza, 2001). Therefore, stock market liberalization is expected to lead to deeper and more efficient stock markets.

2.1.5 Challenges of Launching Stock Markets

The proper functioning of local capital markets requires that several conditions are met. These preconditions can broadly be classified into three groups: sound macroeconomic policy, strong institutional and legal setting, and a well-functioning financial infrastructure. Moreover, markets cannot flourish without meeting a minimum size. Without these preconditions, government efforts to develop local capital markets are bound to fail, resulting in shallow markets and duped investors, and it is therefore generally advisable to sequence financial reforms such that these conditions are sufficiently in place before local capital markets are established (Laeven, 2014).

i) Unstable Macroeconomic Policies

A sound macroeconomic framework and stable macroeconomic policy is needed to attract foreign capital and to ensure that monetary policy actions can be taken without causing excessive interest rate volatility that would interfere with the development of bond markets. And governments must adopt a clear issuance strategy and debt management framework so that investors can anticipate a reliable supply of fixed-income securities. For example, Burger et al., (2012) found that countries with stable inflation rates (a proxy for creditor-friendly policies) have more developed local bond markets and rely less on foreign currency-denominated bonds.

ii) Strong Legal and Institutional Environment

Strong institutions and a well-functioning legal system are also critical for the development of local markets because they provide the basis for the protection of investor rights, including minority interests, to attract widespread interest from investors and ensure that creditors are repaid in an orderly fashion. For example, Burger et al., (2012) find that countries with creditor-friendly laws (i.e., strong creditor rights) and stable macroeconomic policies have more developed local bond markets. Asian capital markets, where creditor and investor rights tend to be stronger and contract enforcement less costly, tend to be more developed than those in Latin America (Eichengreen & Luengnaruemitchai, 2006). More generally, economies with investor-friendly laws tend to have deeper capital markets and the firms in such economies tend to obtain higher stock market valuations (LaPorta et al., 2002).

Laws mandating public disclosure and facilitating private enforcement through liability standards benefit the development of securities markets, while public enforcement of securities laws has little impact. This suggests that securities laws that empower the market by setting mandatory disclosure and liability standards are to be preferred over laws that focus primarily on regulatory enforcement of laws (LaPorta et al., 2002).

At the same time, strong securities laws and investor rights may be insufficient for the development of local capital markets (notably equity and corporate bond markets) if corporate ownership is concentrated and corporate governance is weak. In such environments, corporate governance reforms may be needed to support investor rights. Such reforms could focus on encouraging stronger oversight of corporate boards or the removal of barriers to takeover threats (Laeven, 2014).

One challenge is that institution building takes time and requires a sustained and broad political consensus. In reality, announced market-oriented policies are often reversed or not fully credible initially (Eichengreen & Luengnaruemitchai, 2006).

The co-development of banking and local bond markets can also be a double-edged sword. Local bond markets have often been developed by governments with a view to facilitate the placement of longer dated government paper at local banks to finance large fiscal deficits. Such directed lending to government by banks as a captive domestic audience is a form of financial repression that gives rise to an excessively close connection between government and banks

(Reinhart & Sbrancia, 2011). Another example of an undesirable close connection between banks and sovereign is the euro area today where large holdings of domestic government bonds create a vicious cycle between weak sovereigns and weak banks (Gennaioli et al., 2013).

iii) Financial Infrastructure

A financial infrastructure refers to the physical underpinnings for a financial market exchange, including trading platform and trading system, as well as the regulatory apparatus and industry to process, evaluate, and validate the information being produced and used by the market. The trading platform could be physical or electronic. The regulatory apparatus will consist of a securities market regulator, together with any self-regulation imposed by the market itself. The regulator's job is to issue and enforce public regulations and promote the private disclosure of information and private enforcement of rules. The rating process will be generated and supported by rating agencies and credit guarantors.

The efficiency and security with which securities issues can be listed and traded on the exchange together with the quality and flow of information to value securities will to a large extent determine the market's success. Unfortunately, for many small investors and small and medium-sized firms seeking to tap financial markets to raise additional capital, large fixed costs associated with accessing such markets are too steep to make such financing economical. Such fixed costs come in the form of listing requirements, transaction costs and taxes, and the costs associated with hiring an internationally recognized auditor (Laeven, 2014).

iv) Market size and complementarity

The development of local pension funds can provide another impetus to local market development, especially bond markets. Pension funds need to invest in longer date instruments for asset-liability management purposes and therefore can provide a stable market base for local bond and equity markets. A good example is Chile which launched a funded pension system in 1981 which contributed to the development of local bond markets, making the Chilean bond market one of the most developed in Latin America over the next two decades (Cifuentes et al., 2002).

Moreover, the creation of an institutional investor base will have positive externalities for the development of local capital markets by stimulating financial innovation and the efficient functioning of these markets. Institutional investors will exert pressures for better accounting and auditing standards as well as for a more accurate and timely disclosure of information to investors.

They will also encourage improved broking and trading arrangements and will help establish more efficient and reliable clearing and settlement facilities. Additionally, they can improve corporate sector performance by facilitating the privatization process and by promoting sound corporate governance and the dispersion of corporate ownership (Vittas, 1992).

At the same time, it should be recognized that some economies simply lack the scale to support a flourishing local capital market, even absent any economic or legal shortcomings, simply because of lack of market size. Such economies would be better served by promoting foreign listings and regional exchanges rather than investing in an illiquid, shallow market at home (Laeven, 2014).

2.1.6 Opportunities for Stock Markets

2.1.6.1 Ethiopian Capital Market Proclamation

The bill is expected to ease raising capital, enhance the liquidity of assets and boost the confidence of investors. While its objective is to support the development of the national economy through mobilizing capital, promoting financial innovation, and sharing investment risks, it is expected to play a big role in protecting investors. The proclamation will enable the government to establish a market where securities such as shares or equities, bonds, and derivatives are bought and sold. It also allows the establishment of both primary and secondary capital markets. For the purpose of assisting, regulating and controlling business of buying, selling and dealing in both markets, the Ethiopian Securities Exchange (ESX), will be the dominant player. Providing a physical location for investors who would like to buy and sell securities, ESX will be established by the state in the partnership with the private sector, including foreign investors, according to the bill. The maximum stake government and state-owned entities can have is, 25 percent of ESX's capital, while the rest will be under the ownership of private entities. If the private sector is disinterested to invest in the exchange, the government will have the liberty to invest the whole amount of money needed to establish the Security Exchange and is even authorized to fully own it through a regulation that will be approved by the Council of Ministers, according to the same bill (Financial Perspective, 2022).

The Security Exchange will be regulated by the Ethiopian Capital Market Authority, an autonomous government regulatory authority which will be accountable to the parliament. The Authority will have the mandate to grant a license to any person willing to operate as a securities exchange, derivatives exchange, securities depository and clearing company, capital markets services provider, and over-the-counter trading facility. Most importantly, the Capital Market Authority will have the mandate to regulate and oversee the issuing and subsequent trading, both in primary and secondary markets, of capital market instruments, while supervising the listing and delisting of securities. But there is a possibility that the Authority could delegate some of its tasks to a self-regulatory organization, which will have its own internal policies and can deal with a breach of the law or of any other applicable standards or guidelines. Avoiding anti-competitive practices, developing procedures for dispute resolutions, taking disciplinary measures against any of its members if they contravene with its rules are among its functions put in the bill (Dagnachew, 2022).

Ethiopia's stock market will have a security depository and clearing company that will offer securities depository, clearing, and settlement and other services upon obtaining a license from the authority. The clearing company will be licensed if it is established as a share company, in which the private sector can invest, and meet minimum capital requirements and present evidence of competence and any other requirements to be specified by directive of the Authority after the legislation of the bill. Furthermore, upon being instituted, the capital market will create a business opportunity for securities broker, investment adviser, collective investment scheme operator, investment bank, securities dealer, and credit rating agency, all of which will be licensed by the authority (Dagnachew, 2022).

To avert market manipulation, the bill prohibits a deliberate attempt to interfere with the free and fair operation of the stock market, while it also bans creating or do anything with the intention of creating a false or misleading appearance as to avoid false trading. By the same token, aiming to circumvent fraudulent transactions, the bill bars investors and any other players in the exchange market from making or publishing any statement, promise, or forecast that is deceptive. A capital market offence is also considered as a crime and anyone will be charged, prosecuted, and appealed in accordance with criminal procedure code. In case of failure of a capital markets service provider or securities exchange, the government will also establish a compensation fund, which will recompense investors who suffer pecuniary loss and paying them from collected unclaimed dividends when they resurface (Financial Perspective, 2022).

The Regulator; The Ethiopian Capital Market Authority (ECMA), an autonomous government regulatory body that is accountable to the Parliament, was established by the proclamation

No.1248-2021. The main aim of ECMA is to protect investors, ensure the existence of a capital markets ecosystem in which securities can be issued and traded, ensure the integrity of the capital markets and transactions in order to reduce systemic risk, and promote the development of capital markets by creating an enabling environment for long term investments. The Securities Depository and Clearing Company will also need to get a license from ECMA.

Dispute Settlement; The Capital Markets Tribunal is established under the Proclamation to hear appeals against decisions made by the ECMA or against a person exercising the functions or powers of the ECMA.

Regulation and Ethics; Prohibition against insider trading, market manipulation, false trading, fraudulent transactions, use of manipulative devices, false or misleading statements, front running, and other trading practices or restrictions on the selling of securities are the types of activities that are considered improper trading practices in the capital market and are subject to capital market offense.

Going Public; Only share companies having more than 50 shareholders are allowed to go public. An issuer's disclosure obligation will continue post-listing, and the issuer will have an obligation to keep the public informed of all matters which affect the value of the securities.

2.1.6.2 Expected Opportunities

The reestablishment of the capital market is expected to;

- Serve as a platform to raise long-term funds for a business environment that has been highly reliant on bank financing.
- Support sustainable private sector development, which is directly tied to the development of the country's economy.
- Offer financing options for companies and an easy entry and exit opportunity for investors.
- Provides an opportunity for a shareholder to easily sell its shares at a quoted price.
- Provide individuals with an opportunity to invest their money.

Considering the size of companies in Ethiopia currently, we might not expect numerous companies and operators in the capital market in the first few years. Financial institutions like banks and insurance companies are expected to be the first ones to be actively engaged considering their size and since they are already well regulated. Big state enterprises are also expected to surface in the market.

2.1.7 Factors That Influence the Development of Financial Markets

Factors influencing financial markets development as per Sundaresan (2008).

1. Regulatory framework
    - Corporate governance
    - Investor protection
    - Disclosure requirements
    - Insider trading
    - Market surveillance
    - Underwriting standards/bank supervision
2. Fiscal and exchange rate policies
    - Captive (nationalised) banks to hold debt
    - Auctions to sell sovereign debt – government benchmarks – active primary and secondary government bond markets
    - Controlled exchange rates
3. Legal framework and bankruptcy code
    - Integrity of contract enforcement.
    - Transparent ownership of assets such as residential and commercial properties.
    - Bankruptcy code that leads to efficient outcome in financial distress and provides correct incentives ex-ante. This can have huge consequences for the development of corporate bond markets.
4. Trade patterns
    - An export-oriented economy has greater incentives to access and develop foreign currency debt instruments.
    - An economy driven by domestic consumption may have innovative and informal credit markets to tap pools of local currency capital.

5. Infrastructure for trading and intermediation

- Developing settlement and clearing systems.
- National and international standards for accounting/auditing statements.
- Developing and enforcing standards for investment advisors and other intermediaries.

6. Access to global issuers and investors

- Access to global issuers allows foreign currency markets to develop within the country.
- Access to global investors generates global portfolio flows that move in and out of the country.

7. Incentives for financial innovation

- Light touch regulation tends to promote innovation as well as excessive risk-taking.
- Tough regulation can lead to stagnant financial markets.

2.1.8 Capital Market Operations

In primary markets, securities are issued by widely-held share companies, the central government usually represented by its treasury, and local governments and municipalities. Share companies may issue commercial papers to raise short term finance, different types and classes of shares to raise equity capital, and bonds to raise long term debt. Central and local governments as well as municipalities normally issue bills and bonds of varying maturities to finance budgetary shortfalls and the implementation of various infrastructural and social service projects. The securities issued by the bodies mentioned above are by and large purchased by institutional investors, wealthy individuals, and small savers. Pension funds, insurance companies, credit and saving associations, foundations, cooperatives, banks. investment trusts and mutual funds are the major institutional investors. In many developed and developing countries, institutional investors account for the bulk of gross national investment. In the US, for example, more than two-thirds of total investment is made annually by institutional investors and only the remaining one-third by wealthy individuals and small savers (Araya & Tadewos, 1994).

In secondary markets, securities are resold by and change hands among and between institutional investors, wealthy individuals and small savers. Governments at central and local levels rarely enter secondary markets. Companies, whether private or publicly held, enter secondary markets frequently for cash management purposes and for adjusting their investment portfolio. As mentioned above, central banks also enter secondary markets from time to time in exercise of their mandate to formulate and implement a country's monetary policies. Central banks normally trade in government securities and other securities of high credit rating (Araya & Tadewos, 1994).

Both in primary and secondary markets, financial intermediation plays an important role in many significant ways. Firstly, financial intermediaries operating in capital markets underwrite initial public offerings of shares and bonds issued by publicly held companies. In underwriting, a brokerage firm or a syndicate of such firms undertakes to sell to the public the securities of the issuing firm within a specified period, and to purchase for its own account whatever amount that may remain unsold at the end of the period. Thus, underwriting gives assurance both to issuers and purchasers of securities that the subscription process would be completed promptly within a specified period. In order to protect investors against frauds, misrepresentations, collusion between brokers, insider trading and the like many countries have enacted an elaborate set of legislation, rules and regulations. They have also established agencies with pervasive powers to control and regulate their capital markets. In this respect, one regulatory mechanism widely used is the mandatory requirement of full and fair disclosure of information. Companies are required to disclose information on forms prepared for the purpose not only at the time they issue securities but also regularly thereafter, say every quarter (Araya & Tadewos, 1994).

2.2 Empirical Review

According to the findings of a study conducted by Araya & Tadewos (1994) on the development of capital market in Ethiopia the following recommendations were proposed for Ethiopia’s stock market; A regulatory agency be established with broad and direct authority over the operation and further development of the Ethiopian capital market; All share companies should be registered by this agency before their shares are sold to the public. The Agency should issue regulations regarding disclosure requirements that will ensure that investors have "full and fair" disclosure of pertinent information in connection with security offerings; Relevant government authorities and the Ethiopian Accountants and Auditors Association establish accounting and auditing standards; Legal and administrative impediments restricting their ability to make investments in securities be removed, and that they be encouraged to make prudent investments in these instruments; The privatization process be speeded up and that serious consideration be given to public offering of shares as a modality for privatization.

A study conducted by Ahferom (2011) to find out the advantages and disadvantages of establishing of a stock exchange in Ethiopia using bank shareholders as study population listed the advantages as contributes to the economic growth of the country, helps to easily sell and buy shares, serves as an alternate source of finance helps to attract more domestic and foreign investors, promotes efficient financial system, allow de-concentration of ownership, improve accounting and auditing standards, provide effective tools for monetary and fiscal policy and will help privatization efforts by the government. Further, the research listed reasons not to establish the market as; the available institutional infrastructures are not adequate, the political and economic conditions of the country is not conducive, the current demand and supply of shares are not enough to establish a stock exchange, there are other priorities for the country, it is not that much necessary for our country and awareness creation in the society.

As per the results conducted by Bizuneh (2020) on the benefits and challenges of capital markets in Ethiopia the benefits of having a capital market are; helps to complement the development of the financial sector, highly efficient mechanism for channeling local savings to investments, reduce cost of capital and unemployment, offer liquidity to investment, reduce investment risks, contribute for unification of the country, and help for government financing. the challenges the study outlined are experience of expertise, effective regulation and supervision, financial infrastructure and financial literacy of investors.

According to Esayas (2020) the following opportunities and challenges are raised in the study. The launching needs a number of prerequisites included enhancing public institutional infrastructures, lessen macroeconomic and institution development challenges and mobilizing savings and opening and relaxing the economy. This is due to the fact that it is an alternative means for securing capital helping governments and private sectors to mobilize capital to finance a wide range of infrastructure thereby satisfying social needs as well as economic growth and jobs. Stock markets are supposed as a tool for the promotion of the financial sector and the development of private savings, thereby supporting then on-monetary funding of the economy and the fight against inflation. Provides an alternative financial vehicle for individuals to meet their risk preferences and liquidity needs, thereby increasing the saving in the market. Stock markets also promote growth at a listed company level, as the firm can mobilize capital at a lower cost of capital as risk is shared widely in the market place; that leads to value creation.

Kibuthu & Osano (2010) studied developing securities markets in East Africa and outlined the many challenges associated with developing securities markets in East Africa are laws and regulations that constrain issuance and trading of securities, the limited capacity of regulators to carry out their supervisory role or enforcement, limited technical expertise and fragmented market information on products, as well as inadequate technology and market infrastructure.

The environmental foundation and opportunities researched by Tiruneh (2012) identified the benefits of establishing financial markets in Ethiopia as, promotes private sector development, liquidity function, helps mobilize local savings and makes resources available for local decision making, enhances competition among financial institutions/banks and develops a greater diversity of financial institutions, increases remittances and facilitate their use, leads to improved corporate governance and promotion of specialized financial institutions and services, rewards sound economic policies and create tools to conduct monetary policy, help in resource allocation, allow de-concentration of ownership, improve accounting and auditing standards and promote efficient financial system.

Challenges and prospects of establishing stock market in Ethiopia as studied by Getachew (2016) are; there is no regulatory authority and other related institutions to trade in stock in the Ethiopian market; basic principles and policies governing share circulation management were not anchored at a sufficiently high juridical level of the law, with an effect on the level of transparency and clarity of the regulations, and it has made enforcement difficult; absence of a single agency with a mandate for formulation of stock market policy, and monitoring compliance in ensuring clear and enforcement mechanisms; accountants and auditors in the country use different accounting and auditing standards; lack of qualified human resources to exert stock market and related financial matters.

According to Teferi (2021) the following impacts of establishing capital market on Ethiopian commercial banks identified the major risk of the capital market to the economy like economic risk to investments, inflationary/deflation risk, market value risk, being too conservative and political crisis by relating with the current situation of country regulation power. The major opportunities of the capital market are meeting the financial need for the economy and it can work with commercial banks.

Prospects and challenges for the establishment of capital market in Ethiopia as investigated by Biniyam (2017) capital markets could lead to the economic growth and prosperity of Ethiopia; capability and awareness of regulatory body, banks and their customers need to be enhanced.; legal and regulatory framework on e-banking and e-payment are weakly functioned; before inaugurating capital market in Ethiopia there must be strong financial, economic, and technological foundation; there must be different complex work in financial institution, human power development information technology infrastructure, creating public awareness related to capital market and economic development.

Mulunesh (2019) listed the prospects and challenges of stock market of Ethiopia as; the current realities of the Ethiopian economy have many favorable conditions (opportunities) that can pave the way for stock market development. The favorable macroeconomic and social conditions, increased interest of foreign investors, the growth and transformation Plan (GTP), financial sector development, increased private sector participation and high enthusiasm among stakeholders are the opportunities. The major challenges identified are: inadequate institutional and legal frame work, low quality and quantity of financial services, scarcity in communication network, policy measures impetus, gaps in accounting, auditing and legal infrastructure, low level of saving and financial literacy, inadequacies in skilled manpower, and forms of business organizations.

Previous literatures have shown that there are numerous variables that have a direct impact on the stock market under each component. These factors include the regulatory and legal framework, market infrastructure, banking sector development, political stability, education and public awareness, economic growth and a sufficient level of per capita GDP, investor base and institutional investors, portfolio capital flows, monetary policy, fiscal policy/taxation policy, foreign participation policy, economic development stage, economy size, structure, and growth prospects.

2.3 Conceptual Framework

Many aspects influence the establishment, launch and development of stock market. These factors can be categorized into supply factors, institutional factors, demand factors and economic policies as per (El-Wassal, 2013). Previous researches show that under each factor there are many issues that have a direct impact on the stock market. Which include regulatory and legal framework, market infrastructure, banking sector development, political stability, education and public awareness, economic growth and sufficient level of per capita GDP, investor base and institutional investors, portfolio capital flows, monetary policy, fiscal policy/taxation policy, foreign participation policy, the stage of economic development, economy size, the structure of the economy and prospects of economic growth.

Based on the theoretical and empirical literature review, these factors are chosen to study the challenges and opportunities to launch stock market in Ethiopia. The selected variables are pension fund, financial literacy and public awareness, economic size and development, accounting and auditing standards. These variables are chosen because they have not been fully covered in previous studies as discussed in the literature review and to also study the variables in different timeframe from the time they were previously discussed.

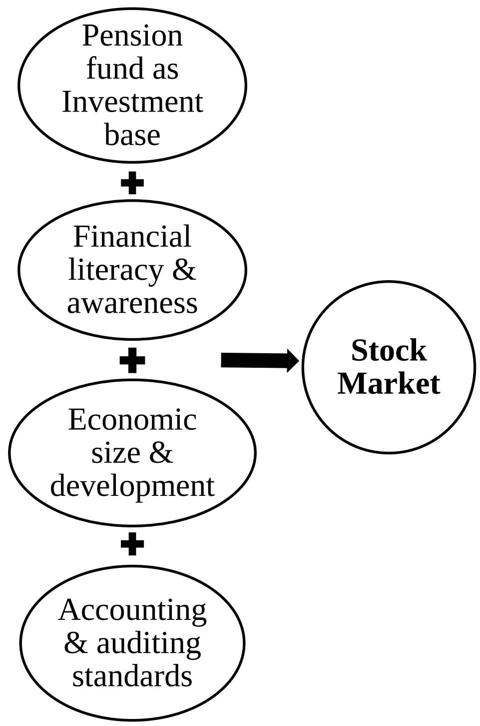


Figure 2.2 Conceptual Framework

Chapter 3

Methodology of the Study

3.1 Research Design

Many researchers have identified the opportunities and challenges of capital markets to a given economy. But it is essential to note, that the opportunities and challenges in one country may not be the exact replica for the other due to various reasons. And as there are numerous factors researches focused in Ethiopia’s stock market have studied the various influencing variables. The studies conducted have-not covered all the issues to be studied. Therefore, the research has studied pension fund, finance professionals’ readiness and awareness, economic size and development, accounting and auditing standards which have not been vastly studied in the previous researches. The research adds new outlooks to launch a stock market in Ethiopia with the anticipated challenges and opportunities.

This study has mainly a descriptive aspect, which seeks to determine the answers to ′what′ and ′how′ research questions (Babin et al., 2003). Descriptive studies involve designing and collecting data; checking for errors; and coding and storing data. They also contain a structured questionnaire in which respondents select from a fixed number of choices. The study has also an exploratory dimension because a systemized stock market is coherently a new potential investment option for Ethiopia. Thus, the study has explored the challenges and opportunities that exist to launch the stock market.

3.2 Research Approach

The research has two dimensions, quantitative and qualitative analysis. The quantitative approach symbolizes taking representative samples from the population of interest and measures the behavior and characteristics of the chosen sample and attempts to construct generalizations regarding the population as a whole (Wilson, 2010). From the quantitative analysis data pertaining to the readiness economic status of Ethiopia and the financial status of the pension fund and its implied contribution to the stock market as well as the insight of accountants towards the stock market was studied. In the qualitative analysis lessons from other countries' challenges and opportunities were discussed to further bolster the research. Data analyzed from the two approaches were used to identify challenges and opportunities that exist to launch Ethiopia’s stock market.

Hence, the research has analyzed the perception of employees working in finance and investment departments in the FDRE private organizations employee's social security agency and public servants' social security agency, and certified member accountants of the ACCA in addition to analysis of the country's economic and other relevant data.

This research is also conducted in qualitative thematic analysis: analytically because it is argumentative in its very nature. So, the research digs out the benefits and challenges of capital market in any economy and tries to persuade those that are peculiar for the Ethiopian economy using the secondary data obtained mainly from various sources such as NBE and World Bank. The qualitative research was conducted by a content analysis utilizing and searching the results of numerous scholarly journals that have conducted research on challenges and opportunities to launch a stock market.

3.3 Data Types and Source

There are two kinds of sources for data collection and these are primary and secondary sources of data. Primary data are those which are collected from the field by the researcher afresh and for the first time and thus happen to be original in the character (Kothari, 2004). Both primary and secondary data were collected from various sources using different instruments to make the study complete and achieve its predetermined objectives.

Primary and secondary sources were used in gathering information relevant to the subject under investigation. The researcher used questionnaires to capture primary data regarding accountants', and investment and finance department employee's perceptions regarding the variables of the study. The questionnaire was developed by modifying questions from international surveys, and previously conducted studies such as The European Accounting Review and Annual Survey of Investment Regulation of Pension Funds and Other Pension Providers prepared by OECD. Questions extracted from theories analyzed in the literature review are also used to further develop the questionnaire. The questionnaires were used to answer the objectives of the research in relation to identifying whether the current accounting standards in Ethiopia can handle the stock market, and to also assess the professionals' readiness to participate in the stock market. Determining if the pension fund can be used as a potential investment in Ethiopia's stock market is the third objective covered by the questionnaire.

The researcher obtained secondary data from various sources of information such as journals, books, publications and the internet that contain valuable resources that helped to build a case for the study. Secondary data was used to better articulate the problem at hand, define the gap in the work of previous scholars, aid in the process of developing research question and questionnaire design as well as was used to answer some of the research questions. The source of data for the qualitative research are secondary data obtained from the National Bank of Ethiopia, reports from the IFC, IMF, World Bank and other relevant scholarly studies conducted on the topic. These data were used to assess the readiness of Ethiopia's economy to launch the stock market.

3.4 Target Population

Because various researches have used the opinions of NBE officials, Bank employees and shareholders repeatedly the target population of this research has focused on other data sources as its target population.

The source population of the study consists of all members of ACCA Ethiopia (the Association of Chartered Certified Accountants) who have been certified by the firm and who work in, Addis Ababa Ethiopia. As reported in the English newspaper the Ethiopian Reporter ACCA Ethiopia has 572 certified members of which 389 are based in Addis Ababa and their addressee's available, thus N=389. The second source of the study are employees working in the finance departments of FDRE private organizations employees' social security agency and public servants' social security agency. Employees working in the head offices of the two agencies were considered for the study more specifically professionals working in the investment and fund management directorate. As per the information obtained from both organizations a total of 27 employees are currently working in both agencies of the aforementioned directorates.

3.5 Sample Size Determination

Considering the size, as well as time constraints, it becomes difficult to include the whole population for the data collection. Thus, to avert such constraints the researcher is forced to extract a sample from the whole population. The size of the sample should neither be excessively large; nor too small. It should be optimum; an optimum sample is one that fulfills the requirements of efficiency; representativeness; reliability and flexibility (Kothari, 2004). Therefore, the sample size of ACCA members with N=389 is calculated.

Based on the formula published by the National Education Association of USA for determining sample size, n. The sample size is calculated as;

$$\text{Sample size, n} = N * \frac{\frac{Z^2 * p * (1-p)}{e^2}}{[N - 1 + \frac{Z^2 * p * (1-p)}{e^2}}$$

N = Population size,

Z = Critical value of the normal distribution at the required confidence level,

p = Sample proportion,

e = Margin of erro**r.**

N = 389;

Critical value at 95% confidence level, Z = 1.96

p = Used 0.50 since this would provide the maximum sample size

e = Acceptable value of 0.05 is taken

$$n = 389 * \frac{\frac{1.96^2 * 0.5 * (1-0.5)}{0.05^2}}{[389 - 1 + \frac{1.96^2 * 0.5 * (1-0.5)}{0.05^2}}$$

The sample size is n = 194, for members of ACCA.

However, as the population size of the employee's social security agency is 27 which is a size that can be covered without the need for sampling. The whole population is used as a data source for the second questionnaire.

3.6 Sampling Techniques

From the most commonly utilized non-probability sampling techniques; which are convenience, purposive, quota, snowball, and self-selection. The study used convenience sampling where sample was collected from whichever participants are easiest to reach. It's a first come, first serve sampling method used to select and achieve a suitable sample for the ACCA certified accountants. Certified accountants by ACCA Ethiopia working in Addis Ababa are chosen because of their vast network in the field and by working in various financial sectors. The sample size for the study assumes a 95% confidence level, and a 5% margin of error. The sampling frame consisted of 389 ACCA members situated in Addis Ababa of which 194 accountants were selected using the convenience non-probability sampling.

3.7 Data Collection Technique

Pertaining the advantages and disadvantages of questionnaires the method was used to collect data from the sample respondents. Data from sampled certified accountants of ACCA and employees working at both The FDRE private organizations employee's social security agency and The FDRE public servants' social security agency particularly accountants and financial experts at the investment and fund management directorate was obtained by asking them to fill out a questionnaire. Apart from the socio-demographic characteristics, they are asked to provide their opinions about a number of different factors that affect stock markets. These self-administered questionnaires are developed with a five-point Likert scale and some alternative questions are also raised to study the perceptions of the respondents. The type of questions, form, wording and sequences also considered carefully.

Two separate questionnaires were used to gather data from ACCA members and employees at the social security agencies. Google Forms questionnaires are used to gather data from members of ACCA and the first 101 responses submitted in the planned time frame are used for the study. And paper-based questionnaires are used for employees of the social security agency. To help the respondents truly understand everything that is being asked, the questionnaire is designed to be as straightforward and comprehensive as possible.

3.8 Validity and Reliability

3.8.1 Validity

Validity refers to the extent to which a measure adequately represents the underlying construct that it is supposed to measure (Bhattacherjee, 2012). Validity is concerned with how well the concept is defined by the measure. According to Bhattacherjee (2012), there are two assessments of validity which are theoretical or translational validity and empirical or criterion-related validity which includes content validity, predictive validity, convergent validity and concurrent validity. The content validity of a set of scale items is determined by how closely they fit the relevant content domain of the construct being measured.

The study applied content validity because it assesses how well a set of scale items matches with the relevant content domain of the construct that it is trying to assess. To ensure the validity of both questionnaires the questions raised as discussed in the previous section are adopted from international surveys, and previously conducted studies and extracted based on the theoretical models of previous studies. In addition, collected data was analyzed by employing SPSS software to confirm the instrument used has the required level of validity.

3.8.2 Reliability

The Cronbach Alpha (α) coefficient is statistically calculated to determine the reliability of the data about all the factors used in both questionnaires. Cronbach's alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability (Bryman & Bell, 2014). A reliability estimate that is 0.70 or higher suggests good reliability, whereas reliability between 0.60 and 0.70 may be acceptable provided that other indicators of a model’s construct validity are good. Nevertheless, the lowest acceptable limit for Cronbach’s coefficient (α) is 0.70 (Ruekert & Churchill, Jr., 2014). The minimum Cronbach Alpha coefficient for this research is set at $\alpha \geq 0.70$. Using SPSS software, the reliability of the data is calculated to verify the research has kept the required reliability value.

3.9 Data Analysis Techniques

After the collection of the required data, the researcher coded and entered data into a computer for electronic processing using IBM SPSS statistics version 26. The data analysis includes descriptive statistics to count the frequency of response, percentages, means, standard deviations, tabular, and graphic representations were used to summarize and present the analyzed data. The Likert scale with 5-point scales was used to calculate and measure their influence levels of the response, then the data from the mean values were used to interpret the response into the context of the questions and standard deviation to pinpoint the variation rate in the responses between answers. Further reliability analysis was conducted to test the internal consistency of the instrument. Additional context analysis was conducted to analyze the secondary data to arrive at concluding remarks that show consistency among the studied data.

3.10 Ethical Considerations

Ethics is the moral distinction between right and wrong, and what is unethical isn't always criminal. (Bhattacherjee, 2012). A researcher must evaluate voluntary involvement and harmlessness in order to be ethical. Subjects in a research study are informed that participation is optional, that they have the right to withdraw from the study at any time without repercussions, and that they will not be harmed as a result of their involvement or non-participation. To increase the anonymity of the information they provided, the respondents were not requested to write their names or the names of their companies. In addition, the questionnaire emphasizes that the research was conducted for academic purposes and that the respondents were chosen based on their desire to participate. Furthermore, the researcher avoided making any claims in the questionnaire that were misleading or deceptive.

Chapter 4

Results and Discussions

4.1 Introduction

This chapter presents the findings of the study based on the analysis of the data collected through the Google Forms questionnaire for ACCA members and through paper-based questionnaires for employees at The FDRE private organizations employee's social security agency and The FDRE public servants' social security agency particularly accountants (experts) at the investment and fund management directorate. The results analyses from both questionnaires are presented separately in different sections. First, the socio-demographic profile of the respondents is discussed. Second, the results of descriptive statistical analysis are discussed. Last, using the results from both analyses the research findings are discussed.

4.2 Data Analysis

Descriptive statistics were used to analyze the data using SPSS V.26 as a statistical tool. One hundred one respondents replied to the goggle form questionnaire sent to certified members of ACCA on the scheduled time frame, which has a 52% response rate. And then out of the 27 distributed questionnaires for both social security agencies, 22 were returned, which represents 81.48% response rate. The response rates are higher than what Richardson (2005) stated that 50% is regarded as an acceptable response rate in social science research surveys.

Descriptive statistics (frequencies, percentages, means, and standard deviations) were used as a means to describing socio-demographic characteristics of the respondents, as well as their perceptions towards the factors that indicate the challenges and opportunities to launch Ethiopia's stock market. Likert scale questionnaires with a 5 scale rating are used to assess the respondent's opinion from strongly disagree = 1, disagree = 2, neutral = 3, agree = 4, and finally strongly agree = 5.

4.3 Descriptive Summary of Socio-Demographic characteristics

4.3.1 PSSSA and POESSA Employees

The samples of this study have been classified according to several background information collected during the survey. The purpose of the demographic analysis in this research was to describe the characteristics of the sample with respect to range of age, the proportion of males and females, education level, work position and work experience. The frequency distributions of demographic variables are presented below in Table 4.2 for accountants (experts) at the investment and fund management directorate at The FDRE private organizations employee's social security agency and The FDRE public servants' social security agency.

Table 4.1 Demographic Characteristics of the respondents (Social Security Agencies)

Item		Frequency	Percent % (n=22)
Age Range in Years	21 – 29	10	45.5
	30 – 39	8	36.4
	40 – 49	2	9.1
	50 and above	2	9.1
Gender	Male	10	45.5
	Female	12	54.5
Education Level	Diploma	2	9.1
	Bachelor's Degree	17	77.3
	Master's and above	3	13.6
Work Position	Manager	2	9.1
	Junior Accountant	5	22.7
	Senior Accountant	13	59.1
	Other	2	9.1
Work Experience	Less than 4 years	5	22.7
	4 - 8 years	12	54.5
	9 - 12 years	3	13.6
	More than 13 years	2	9.1

As presented in the table from respondents at the private and public social security agencies' most of the experts' age range between 21 – 29 with 45.5% and the age range from 30 – 39 comes second with 36.4% of the respondents. Experts whose ages ranged from 40 to 49 years old, and above 50 years old accounted for the same 9.1 % which is the least from the sample data. And from the received 22 respondents' data 10 are Males and 12 are Females which has a commendable distribution of gender in the office.

When it comes to the educational level of the respondents' it can be seen that the majority of employees hold a Bachelor's Degree constituting 77.3% of the sample and the second ranked have Master's degree and above which have 13.6% and the last group have Diplomas with 9.1% of the respondents. Most of the experts at the directorates are senior level accountants which constituents 59.1% of the sampled data and junior level employees have 22.7% coming second in the work position category. Managers have 9.1% of the share of the response and work positions identified as others accounted 9.1% as well.

The last demographic data surveyed was work experience, in which the majority of the experts had work experience between 4 to 8 years with a percentage of 54.5%. and the second group had experiences less than 4 years with a percentage of 22.7%. Work experience between 9 to 12 years and more than 13 years have 13.6% and 9.1% respectively. Therefore, as it can be seen from the data the majority of the experts at the agencies are between the age of 21 to 29 years, who have Bachelor's degree and are senior at their work position with 4 to 8 years of experience, which indicates the experts have a reasonable level of understanding and opinion on pension fund and stock market and the challenges and opportunities it brings about.

4.3.2 ACCA Ethiopia Members

Table 4.2 Demographic Characteristics of the respondents (ACCA Members)

Item		Frequency	Percent % (n=101)
Age Range in Years	21 – 29	24	24%
	30 – 39	37	37%
	40 – 49	36	36%
	50 and above	4	4%
Gender	Male	61	60%
	Female	40	40%
Education Level	Diploma	2	2%
	Bachelor's Degree	55	54%
	Master's and above	44	44%
Current Occupation	Self Employed	56	55%
	Private Sector	39	39%
	Public Sector	2	2%
	Other	4	4%
Job Position	Manager	47	47%
	Junior Accountant	13	13%
	Senior Accountant	33	33%
	Mentor	6	6%
	Other	2	2%
Work Experience	Less than 4 years	5	5%
	4 - 8 years	16	16%
	9 - 12 years	33	33%
	More than 13 years	47	47%

Similarly, as presented in the table above from the survey collected from ACCA Ethiopia members; most of the respondent’s age ranges between 30 – 39 and 40 – 49 with 37% and 36% respectively. The age ranges from 21 – 29 comes third with 24% of the respondents. Members whose age is above 50 years old accounted for 4 % which is the least from the sampled data. And subsequently from the received 101 respondents' data 61 are Male and 40 are Female certified accountants.

When it comes to the educational level of the respondents' it can be seen that the majority of professionals hold a Bachelor's Degree constituting 55% of the sample and the second ranked have Master's degree and above which have a commendable 44% and the last group have Diplomas with only 2% of the respondents. Most of the certified accountants are self-employed constituting 55% and the second placed occupation of the respondents placed at 39% work in the private sector. Members working at other sectors and the public sector contribute 4% and 2% of the sample target. Most of the members are at the managerial level having a majority of 47% and senior level positioned accountants come second with a percentage 33%, the remaining job positions are junior level, mentors, and others with percentages of 13%, 6% and 2% respectively.

The last demographic data surveyed was the work experience, in which the majority of the members of ACCA Ethiopia had work experience more than 13 years with a percentage of 47%, and the second placed group had experiences between 9 and 12 years with a percentage of 33%. Work experience between 4 and 8 years and less than 4 years have 16% and 5% respectively. Therefore, as it can be seen from the data the majority of the members of ACCA Ethiopia who participated in the survey are between the age of 30 to 49 years, who have Bachelor's degree and are at a managerial level in their work position with more than 13 years of experience as well as working as self-employed, which indicates the members have a valuable level of experience and education to consider their opinion and analyze their response in relation to the stock market and the challenges and opportunities that exist to launch it in Ethiopia.

4.4 Result Analysis

4.4.1 Primary Data Analysis

4.4.4.1 PSSSA and POESSA Employees

Targeted respondents from the FDRE private organizations employee's social security agency and FDRE public servants' social security agency were asked to express their opinion about internal factors, stock markets, the pension fund and external factors to analyze their perspectives on the challenges and opportunities to launch stock market in Ethiopia. This response analysis presents ratings of respondents' level of agreement for each statement.

Table 4.3 Descriptive analysis of social security agency employee's response regarding pension funds and stock market, part-1

		Mean	Std. Deviation
	Internal Factors		
1	The current organizational structure of the agency is capable to manage the pension in stock market.	2.36	1.59
2	The agency has experts or qualified professionals in pension fund management, particularly stocks.	2.00	1.31
3	There are preparations made by the agency to trade in the upcoming stock market.	3.64	0.66
4	The agency needs capacity building of its employees regarding stock market management, and other related areas.	3.91	0.81
		2.98	
	Pension Fund		
5	The market profitability of the current pension fund investment in Ethiopia is very attractive.	3.64	1.33
6	The legal framework that governs the administration of pension funds can be used to get involved in the stock market.	3.55	0.80
7	The expectation in pension funds not to incur a loss in their investment can be a challenge not to invest in the stock market.	3.27	0.98
8	The share of assets that pension funds can invest in equities should be limited to a certain percentage value.	3.91	0.81
		3.59	

Table 4.4 Descriptive analysis of social security agency employee's response regarding pension funds and stock market, part-2

		Mean	Std. Deviation
	Stock Market		
9	The stock market can be a viable (profitable) alternative for pension fund investment.	3.64	0.90
10	Stocks as pension fund investment assets can be competitive with treasury bills, fixed time deposits, government bonds, demand deposits, and saving accounts.	4.00	0.76
11	Investing the pension fund in the stock market will help the agency earn returns higher than the inflation rate.	3.82	0.85
12	The agency has experts capable of handling (involving) knowledge, readiness, and attractiveness in the stock market.	2.73	1.08
13	I know the new regulations of stock exchange markets and related regulatory frameworks.	3.64	0.90
14	We currently have accounting, auditing, and reporting standards that can handle a stock market.	3.64	0.66
		3.58	
	External Factors		
15	There are plenty of alternative opportunities for pension fund investment in Ethiopia.	2.82	1.22
16	The cost of pension fund investment in Ethiopia is high.	2.45	1.10
17	Experience sharing platforms from other countries in stock market pension fund investment is needed before involving the agency in the stock market.	3.73	0.98
18	High government intervention in the management of pension funds can hinder the involvement in the stock market.	3.91	1.02
19	Inflationary pressures prohibit to invest the pension fund in the stock market.	3.18	1.14
20	There is a clear guideline, policy, strategy, and mission statement that guides investing the pension fund in the stock market.	3.91	0.68
		3.33	

As presented from the result of the above two tables the current organizational structure of the agency is capable of managing the pension in stock market has a mean result 2.36, which indicates the disagreement of the respondents on the issue. Which indicates that the agencies' organizational structure will find it difficult without revising its existing structure to invest the pension fund in stock market. With a mean score of 2.00 the respondents disagreed with the statement the agency has experts or qualified professionals in pension fund investment, particularly stocks, which implies one challenge for the stock market. Therefore with (M=3.91) the agency needs capacity building of its employees regarding stock market management, and investment is an agreed upon statement.

The preparations made by the agency to trade in the upcoming stock market with a mean value of 3.64 is an above average score; thus is one of the opportunities to launch the stock market and to be used as an investment source. The legal structure that controls pension fund administration to be used to invest it in the stock market; is another opportunity to launch the stock market and has a mean value of 3.55. But the expectation in pension funds not to incur a loss in their investment can be a challenge not to invest in the stock market and is agreed upon response with (M=3.27). With a mean value of 3.91 the statement that the share of assets that pension funds can invest in equities should be limited to a certain percentage value is another opportunity to invest in the stock market in a controllable limit. Even though the market profitability of the current pension fund investment in Ethiopia is very attractive and has a mean score 3.64.

The statement stock market can be a viable (profitable) alternative for pension fund investment with (M=3.64) is an agreed upon opportunity for the stock market. And this is further strengthened by the statement; stocks as pension fund investment assets can be competitive with treasury bills, fixed time deposits, government bonds, demand deposits, and saving accounts which has a mean value of 4.00 which is fully agreed. The other opportunity that is obtained from the response is investing the pension fund in the stock market will help the agency earn returns higher than the inflation rate; has a mean score of 3.82. With (M=2.73) the agency has experts capable of handling (involving) knowledge, readiness, and attractiveness in the stock market is a disagreed statement. Therefore, is considered one of the challenges towards the stock market. Knowledge of the stock market and having accounting, auditing, and reporting standards that can handle the stock market both with mean values of 3.64 are existing opportunities to launch Ethiopia's stock market.

There are plenty of alternative opportunities for pension fund investment in Ethiopia; with a mean score of 2.82 leans towards the disagreed upon spectrum which suggests the stock market will bring new opportunities for the pension fund investment. The cost of pension fund investment in Ethiopia is high; has mean score of 2.45. And Experience sharing platforms from other countries in stock market pension fund investment is needed before involving the agency in the stock market also has a mean score of 3.73 in which the first statement is disagreed and the second statement is an agreed upon statement. The second statement suggests the agencies believe they would benefit from sharing the experience of involving the pension funds in stock markets. The other challenge opined in the questionnaire are government's high intervention in the management of pension funds hindering the involvement in the stock market with (M=3.91) and inflationary pressures prohibiting to invest the pension fund in the stock market with (M=3.18). The last opportunity identified in the questionnaire is the existence of clear guideline, policy, strategy, and mission statement that guides investing the pension fund in the stock market with an agreement mean score of 3.91.

4.4.4.2 Members of ACCA Ethiopia

Targeted respondents from members of ACCA Ethiopia were requested to express their opinion on stock markets, accounting standards and data, expertise evaluation, external environment analysis, expected return and investor's familiarity to analyze their perspectives on the challenges and opportunities to launch stock market in Ethiopia. The response analyses are presented in two separate tables below the first using respondents' selection percentage and the second via ratings of respondents' level of agreement for each evaluated statement.

Table 4.5 Result of ACCA Ethiopia members' response with regards to stock market

1	Which sector do you consider provides the most wanted stock?	Telecom and IT	Banking and Insurance	Steel and Industries	Pharmaceuticals and Health	Agriculture
	Percentage	35	51	2	4	8
2	What annual return (in percentage) from your investment do you consider realistic under the current conditions in the financial markets?	Up to 15% per annum	15% to 25% per annum	25% to 35% per annum	Above 35% per annum	-
	Percentage	5	9	47	39	
3	Which of the professions do see yourself being part of in the stock market?	Broker or Financial adviser	Agent	Research analyst	Accountant	None
	Percentage	57	8	1	34	0
4	Which concerns and worries about the stock market weigh more?	Fear of losing money	Lack of ethics in the marketplace	The state of the economy	Accuracy of published financial statements	-
	Percentage	6	22	18	54	
5	Which of the following accounting information will you mostly use to trade in the stock market?	Expected corporate earnings from financial statements e.g., EPS	Profit and position condition of income statements and balance sheet of a firm.	Dividends paid.	The price of a share.	-
	Percentage	26	23	29	22	
6	Please choose where you had your stock market knowledge from	Websites	Professional Advisers	Training	Books	University
	Percentage	7	59	8	13	13

As the result presented in the above table shows the sector that provides the most desirable return based on the respondent's reply is the banking and insurance financial industry in which 51% of the respondents chose it as their preferred option. The information technology and telecommunication sector came in second place where by 35% of the respondents believe will grant the most wanted sector. The agriculture, and pharmaceuticals and health sectors with responses of 8% and 4% respectively. In relation to the percentage of annual return the respondents expect to be realistic under the current conditions in the financial markets the majority of the respondents believe 25% to 35% return per annum is a representative figure, where 47% of the respondents chose. Returns above 35% per annum are the second placed choice of the accountants in which 39% of them selected. Annual returns 15% to 25% and up to 15% are the less chosen expected returns. Therefore, high returns are expected from stock markets. The majority of the accountants saw themselves to be brokers or financial advisers in the stock market with a staggering 57% selection. The rest chose to be accountants with 34% from the total selection and 8% to participate as agents and the rest with a minimum 1% chose research analyst; with no respondent choosing the none option it is implied all the certified accountants showed their willingness to participate in the stock market. The accuracy of published financial statements is the concern the respondents believe weighs more than the other alternatives which are, lack of ethics in the market place, the state of the economy and fear of losing money in the market, whereby the had a response percentage of 54%, 22%, 18% and 6% respectively. With regards to the type of accounting information the professionals will use to trade in the stock market, the responses alternatives had an almost proportional response, in which the highest selected was dividends paid with 29% selection, and expected corporate earnings from financial statements, profit and position condition of income statements and balance sheet of a firm and the price of a share had comparable response shares between 22% and 26%. This shows all accounting have the level of user desire. Professional advisors are the main source of knowledge whereby most of the accountants received their stock market knowledge with 59% majority selection. The other sources of stock market knowledge are university, books, trainings and websites with a lesser respondent's choice but a commendable figure.

Table 4.6 Descriptive analysis of ACCA Ethiopia members' response regarding stock market, part-1

	Mean	Std. Deviation
Accounting		
The current accounting disclosures are capable of disclosing future stock returns and trading volumes.	2.26	0.82
The company valuation techniques used by investment professionals are mainly based on accounting numbers.	2.76	0.71
Financial statements are the primary source of information for stock market participants and analysts.	3.76	1.10
The current accounting standards give reliable and relevant accounting information.	3.51	1.12
We currently have accounting, auditing, and reporting standards that can handle a stock market.	3.13	1.24
International financial reporting standards and quality are applicable in Ethiopia.	3.27	1.10
	3.11	
Expertise		
The lack of professional fund managers who have specialized in the stock market is a challenge for the stock market.	3.76	1.10
I know the new regulations of stock exchange markets and related regulatory frameworks.	3.51	1.13
I have enough education or qualification in the field of stock market investment instruments.	4.05	0.56
I have the willingness to participate in the stock market.	4.50	1.12
	3.96	
Investor		
The financial literacy of my clients can handle the complexity of the stock market.	2.26	1.83
Lack of awareness about financial laws will be a challenge for the stock market in Ethiopia.	3.49	1.13
There is an unwillingness among Ethiopian business owners to provide financial information.	3.89	0.88
There is a potential investor and issuer base to participate in the stock market.	3.50	1.12
	2.94	

Table 4.7 Descriptive analysis of ACCA Ethiopia members' response regarding stock market, part-2

	Mean	Std. Deviation
Environment		
The regulatory framework and system in place are feasible to launch the stock market in Ethiopia.	3.73	1.10
The high exchange rate of the birr against the dollar will be a challenge for the stock market.	3.73	1.10
The high current Inflation rates will be a challenge to the stock market.	3.27	1.31
Electronic online stock trading service can easily be implemented in Ethiopia.	3.51	0.87
Local companies lack proper corporate governance as well as compliance with generally-recognized reporting standards/ transparency requirements.	4.25	0.93
	3.70	
Return		
Even though Ethiopia's stock market is new; I expect a decent return rate on my stock investment.	4.01	1.50
Initial Public Offerings are more preferred than secondary market instruments.	3.63	1.16
The mismatch between low-interest rates for saving and the high-interest rates of loans implicates the need for the stock market in Ethiopia.	4.37	1.22
	4.00	

As presented from the results in the above two tables the current accounting disclosures are capable of disclosing future stock returns and trading volumes has a mean result 2.26, which indicates the disagreement of the respondents on the issue. This indicates that the accounting disclosures currently being applied in Ethiopia are not capable of disclosing future stock returns and trading volumes. With a mean score of 2.76 the respondents disagreed with the statement that company valuation techniques used by investment professionals are mainly based on accounting numbers; which implies there are other valuation techniques investment professionals use to asses companies' valuation. With (M=3.76) financial statements are the primary source of information for stock market participants and analysts is an agreed upon statement. Therefore, developing financial statements as per the required standards is a critical issue that needs to be addressed before launching stock market in Ethiopia as its necessity is confirmed by the above result. The current accounting standards give reliable and relevant accounting information is an agreed upon statement with a mean score of 3.51, which suggests the current accounting standards can only give relevant information in today's market but will find it difficult to disclose future stock returns as put in the first statement. The statements with mean scores of 3.13 and 3.27, the current accounting, auditing, and reporting standards can handle a stock market and international financial reporting standards and quality are applicable in Ethiopia lie in the neutral spectrum leaning to the agree scale, which suggests there exits an opportunity of having the basic accounting, auditing, and international reporting standards that can handle stock market in Ethiopia.

A challenge to launch stock market in Ethiopia is the lack of professional fund managers who specialized in the stock market which has been confirmed by the mean score of 3.76. But as most of the respondents know the new regulations of stock exchange markets and related regulatory frameworks, there exists another opportunity for the stock market which is confirmed with (M=3.51). The existence of enough education or qualification in the field of stock market investment instrument from the certified accountants which is agreed (M=4.05) and the willingness of the professionals to participate in the stock market which is confirmed by the mean score of 4.50 are both additional opportunities. The financial literacy of the accountant's clients has the ability to handle the complexity of the stock market with mean value of 2.26 is a disagreed upon statement; suggesting there exists a gap on the clients' side. Lack of awareness about financial laws will be a challenge for the stock market in Ethiopia is a confirmed challenge with (M=3.49). Another challenge is the unwillingness among Ethiopian businessmen to provide financial information with a mean score of 3.89. The existence of potential investor and issuer base to participate in the stock market is an opportunity that exists to launch stock market (M=3.50).

The regulatory framework and system in place are feasible to launch the stock market in Ethiopia, the high exchange rate of the birr against the dollar will be a challenge for the stock market, and the high current Inflation rates will be a challenge to the stock market; are all agreed upon statements by the respondents with mean scores of 3.73, 3.73 and 3.27. In which the first is an opportunity and the next two are challenges that exist to launch stock market in Ethiopia. With (M=3.51) electronic online stock trading service can easily be implemented in Ethiopia, is confirmed as an opportunity and the lack of proper corporate governance as well as compliance with generally-recognized reporting standards/ transparency requirements by local companies with mean value of 4.25 is an agreed existing challenge. Even though Ethiopia's stock market is new; I expect a decent return rate on my stock investment, with mean score of 4.01 is an agreed upon statement. Initial Public Offerings are more preferred than secondary market instruments, and the mismatch between low-interest rates for saving and the high-interest rates of loans implicates the need for the stock market in Ethiopia are also agreed upon statements with mean values of 3.63 and 4.37 respectively.

4.4.2 Reliability and Validity Analysis

Reliabilities of the scales were checked after coding and entry of data into SPSS version 26.0. Cronbach's alpha coefficients were computed for each scale to determine the internal consistency reliability of the instruments used in the study. George and Mallery (2003) provided a rule stating that, a value of 0.7 is considered a good and acceptable result for Cronbach's alpha. Which is also confirmed by (Sideridis, 2018) which states high reliability is obtained by a value between, 0.70-0.90.

Table 4.8 Reliability Statistics for Questionnaire for PSSSA and POESSA Employees

	Cronbach's Alpha	N of Items
Internal Factors	0.705	4
Stock Market	0.771	6
Pension Fund	0.760	4
External Factors	0.857	6
	Valid Cases	20

Thus, according to the results as shown in the table above all of the questionnaire's categories have a reliability score of more than 0.7 which is above the minimum threshold to have internal consistency reliability of the measurement scales. Therefore, the instrument used is above the acceptable range.

Table 4.9 Reliability Statistics for Questionnaire of ACCA Members

	Cronbach's Alpha	N of Items
Accounting	0.825	6
Expertise	0.747	4
Investor	0.889	4
Environment	0.833	5
Return	0.750	3
	Valid Cases	22

Similarly, according to the results as shown in table 4.4 all of the questionnaire's groups have a reliability score of more than 0.7 which is above the minimum value required to confirm there exists internal consistency and reliability of the measurement scales. Therefore, the instrument used for ACCA members is also confirmed reliable.

The validity of the study's instrument was tested by using the correlation results of the analysis for the social security agencies as shown on Table A2.1 to Table A2.4 of Appendix 2. As proposed by (Hair Jr., Black, Babi, & Anderson, 1998)**,** the Pearson correlation coefficient results need to be higher than the critical value from Pearson correlation coefficient table. This indicates that the constructs are distinct from one another and is deemed to have an acceptable level of discrimination which establishes the content validity of the questionnaire with the Likert scaled questions.

The critical value from Pearson's correlation coefficient table is 0.4227 for Degree of freedom, DF = 20. Thus, as shown on Appendix 2 tables of Pearson's correlation results are for Internal Factors 0.879, 0.929, 0.458, 0.555; for Pension Fund 0.946, 0.809, 0.629, 0.665; for Stock Market 0.678, 0.780, 0.657, 0.681, 0.618, 0.766 and for External Factors 0.738, 0.781, 0.752, 0.805, 0.895, 0.614. Therefore, as all the results from each question are more than the critical value the validity of the questionnaires used in social security agency have been confirmed for 95 percent confidence interval. Meanwhile, the validity of the second questionnaire for members of ACCA is assured by using the content validity tool as discussed in the chapter three. The content validity of the measuring instrument was confirmed by ensuring the investigative issues are adequately covered that guided the research.

4.4.3 Secondary Data Analysis

Secondary data from various reports by World Bank, IMF, Ethiopia's National Bank, Security Social Agencies and other credible agencies are analyzed in this section to further develop the primary data analysis and the conceptual framework of study in relation to economic size of Ethiopia, its development and other related metrics as well as trade, information technology and social indicators. Further, the status of Ethiopia's social security fund is discussed in this section.

Table 4.10 Economic Indicators of Ethiopia

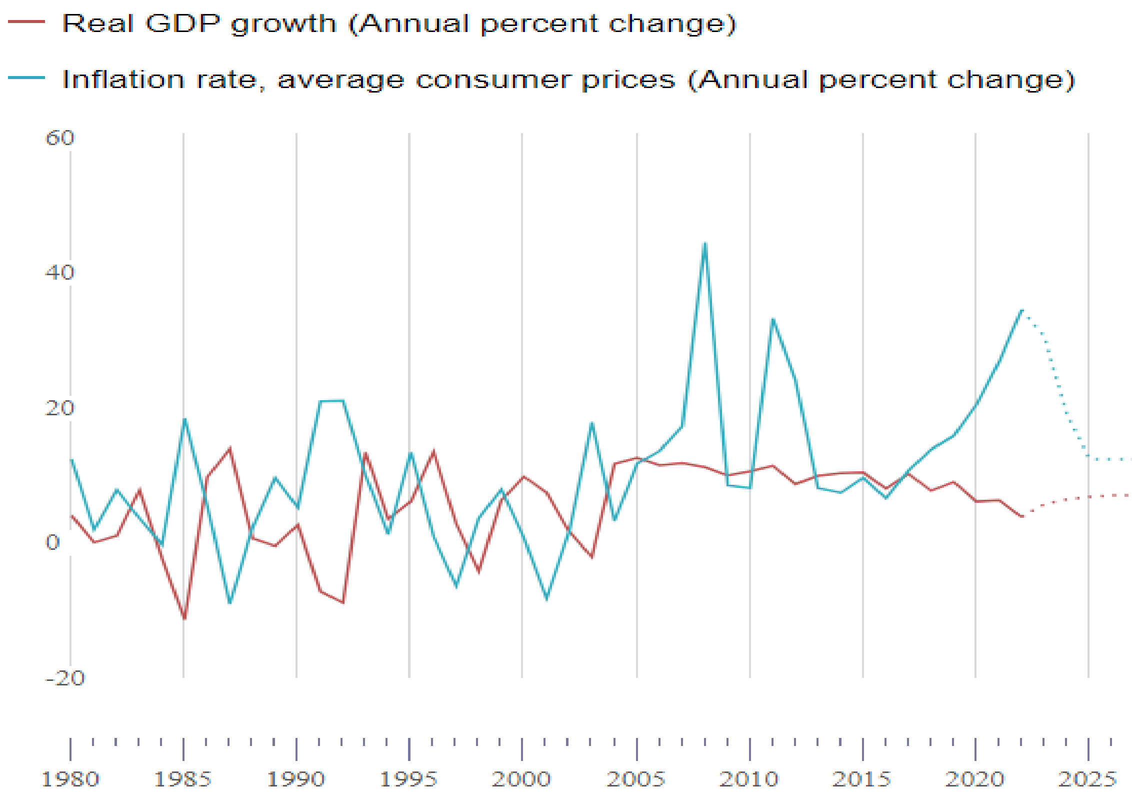
Year (G.C)	Adjusted savings: net national savings (current US$)	CPIA macro-economic management rating	CPIA property rights & rule-based governance rating	GDP (current US$)	GDP growth (annual %)	GDP per capita (current US$)	Inflation, consumer prices (annual %)	Unemployment, (% of total labor force) (modeled ILO estimate)
2011	7,230,333,858.46	3.00	3.00	31,952,763,089.33	11.18	354.48	32.01	2.31
2012	8,480,347,334.66	3.00	3.00	43,310,721,414.08	8.65	467.08	23.38	2.29
2013	7,941,686,477.46	3.00	3.00	47,648,211,133.22	10.58	499.53	7.46	2.25
2014	11,947,012,758.94	3.50	3.00	55,612,228,233.52	10.26	566.93	6.89	2.26
2015	12,123,114,234.76	3.50	3.00	64,589,334,978.80	10.39	640.54	9.57	2.27
2016	15,500,633,170.58	3.50	3.00	74,296,618,481.09	9.43	717.12	6.63	2.29
2017	16,992,075,079.21	3.50	3.00	81,770,791,970.98	9.56	768.52	10.68	2.30
2018	19,999,717,539.97	3.50	3.00	84,269,348,327.35	6.82	771.52	13.83	2.32
2019	19,662,637,558.66	3.50	3.00	95,912,590,628.14	8.36	855.76	15.84	2.33
2020	20,704,059,572.82	3.50	3.00	107,645,054,311.88	6.06	936.34	20.35	3.24

CPIA rating (1= low to 6=high)

Source: World Bank's World Development Indicators, April 2022

As shown in the table above the net adjusted savings has increased by 13.4 billion USD from the year 2011 to 2020 which has shown a 186% increment which implies a significant rise in the past decade. And in the mean while the macroeconomic management rating has changed slightly during the past decade, displaying an increment of 0.5 points from 3.0 in the year 2011 to 3.5 in the year 2020. But the property rights and rule-based governance rating has remained steady during the past 10 years at a mid-score of 3.0. Ethiopia's GDP has increased from 31.9 billion USD to 107.6 billion USD in the ten years as presented in World Bank's World Development Indicators 2021 report. The growth of the GDP has been possible by double figure annual growth rates in the four years of the past ten years, and with a minimum of 6.06% growth rate in the year 2020 and a maximum of 11.18% growth rate in the year 2011. The increase in the GDP has also been evident in the overall rise of the GDP per capita from 354.48 USD to 936.34 USD which is an increment of 581.86 USD in the ten the World Bank report presents. Inflation rates have remained single digit from the years 2013 to 2016 and was double figure digits on the other years the study covered. The highest inflation rate recorded was 32.01% and the lowest inflation rate was 6.63%. The last economic indicator presented in the table is the unemployment rate calculated as percentage of the total labor force modeled by International Labor Organization estimate. Thus, based on the report the unemployment rate has scores between 2.25% to 3.24%, where the highest result was recorded on the year 2020.

A comparable report published by the National Bank of Ethiopia to that of the World Bank's has also reviewed the economic metrics discussed above. The real GDP growth rate of Ethiopia was 11.4% in the year 2011 which was the highest from the data in the past ten years and the minimum was 6.1% in the year 2019 (National Bank of Ethiopia, 2021). Ethiopia's GDP and GDP per capita have also been confirmed to be the same figure as that of discussed in the previous table by the National Bank of Ethiopia's report. The general of the country inflation rate as per NBE's report is also comparable to that's of the previous discussion, which puts the maximum at 34.1% and the minimum at 7.4% on the years 2011 and 2016 respectively. Further Ethiopia has the following financial institutions registered by NBE to execute their works; which are, 27 commercial banks, 18 insurance companies and 41 microfinance institutions (National Bank of Ethiopia, 2021). Further, Ethiopia's projected real GDP for the year 2022 is 3.8% (IMF, 2020).



Source: IMF Data Mapper April 2022

Figure 4.1 Ethiopia's Real GDP Growth and Inflation Rate

Table 4.11 Trade Indicators of Ethiopia

Year (G.C)	Commercial service exports (current US$)	Consumer price index (2010 = 100)	Ease of doing business score (0 = lowest performance to 100 = best performance)	Export volume index (2000 = 100)	Start-up procedures to register a business (number)
2011	2,561,514,618.29	132.01	-	225.20	13.00
2012	2,537,579,918.05	162.88	-	240.65	14.00
2013	2,837,666,390.92	175.04	-	278.16	14.00
2014	2,724,687,533.07	187.10	-	275.51	14.00
2015	2,936,812,670.19	205.00	43.78	284.84	14.00
2016	2,754,506,455.42	218.59	44.06	268.56	14.00
2017	3,265,642,172.40	241.93	46.15	291.05	12.00
2018	4,509,285,550.40	275.40	47.06	271.42	11.00
2019	4,653,753,307.30	319.02	47.98	281.30	11.00
2020	4,318,052,359.58	-	-	317.74	-

Source: World Bank's World Development Indicators, April 2022

As presented in the table above the trade indicators of Ethiopia sourced from the world bank's development indicators April 2022 report, the country's commercial services exports have shown an increase of 1.8 billion USD in the report covered years from 2011 to 2020, from 2.5 billion USD to 4.3 billion USD. The Consumer Price Index of 100 mean is an index based upon average index measurement for the period from 1982 through 1984, which was set to 100. Therefore, the readings of 132.01 on the year 2011 and 319.02 on 2019, indicate a rise in the inflation level of 32% and 219%, respectively. The ease of doing business has shown a 4.2-point rise on data available from 2015 to 2019, which is a mid-level ease of doing business score. Meanwhile the export volume index has risen from 225.2 to 317.74 in the ten years the trade indicator report covered, which is 62-point increase of the index. The number of startup procedures needed to register a business has reduced by 2 from 13 to 11 in the past decade where the trade indicator covered. Ethiopia's export including goods and services has increased from 5.9 billion USD in 2011G.C to 8.5 billion USD in 2020G.C (National Bank of Ethiopia, 2021). Furthermore, Ethiopia's projected consumer prices for the year 2022 are expected to increase by 34.5% (IMF, 2020).

Table 4.12 IT Indicators and Social Indicators

Year (G.C)	Communications, computer, etc. (% of service imports, BoP)	Fixed broadband subscriptions	Individuals using the Internet (% of population)	ICT goods imports (% total goods imports)	Population growth (annual %)	Population, total
2011	30.30	6,353.00	1.10	3.72	2.81	90,139,928.00
2012	23.25	8,535.00	2.90	3.31	2.83	92,726,982.00
2013	16.38	238,067.00	4.60	2.76	2.83	95,385,793.00
2014	18.98	471,285.00	7.70	4.97	2.80	98,094,264.00
2015	20.88	478,000.00	13.86	7.49	2.76	100,835,453.00
2016	25.80	559,000.00	15.37	5.75	2.71	103,603,461.00
2017	17.92	62,950.00	18.62	3.83	2.66	106,399,926.00
2018	21.00	-	20.00	2.84	2.62	109,224,410.00
2019	20.73	159,000.00	22.00	-	2.58	112,078,727.00
2020	25.04	212,000.00	24.00	-	2.54	114,963,583.00

Source: World Bank's World Development Indicators, April 2022

Based on United Nations estimates Ethiopia has an estimated population of 120,358,759 as of May 2020. This is further depicted in the table above where the population has grown from 90 million in 2011G.C to 114 million in 2020G.C. The annual population growth has remained steady in the 2.0 figures between 2.54 and 2.83 in the past decade where the study by the World Bank covered. As the information technology indicators and social indicators presented in the above table show the communications, computer and other related products as percentage from the total balance of payment was the lowest at 2017 with 16.38% and the highest was at 30.3% on the year 2011. As per the World Bank's, World Development Indicator's Report, published on April 2022, Fixed broadband internet has increased its subscribers from 6,353 in 2011 to 212,000 in the last year of the report, 2020 G.C. The percentage of individuals using internet from the total population has dramatically increased from 1.1% to 24% in the ten years from 2011G.C. to 2020G.C. This is further reinforced by Ethio Telecom's official press release stating that in the fiscal year 2020/21 there were 24.9 million data and internet which had 4.7 percent increase from the previous year. The information communication technology imports as a percentage of the total goods imports were studied from the year 2011 to 2018 in which the highest percentage was recorded on 2015G.C. with 7.49% and the lowest percentage was on 2013G.C with a value of 2.76.

Table 4.13 Public servants' social security/pension scheme

Year	Contribution (ETB millions)	Pension payment (ETB millions)	Number of beneficiaries
2010	2,245	1,096	854,316
2011	2,838	785	926,716
2012	4,310	1,363	1,078,171
2013	6,331	1,796	1,102,316
2014	7,824	1,661	1,256,949
2015	9,779	3,237	1,394,763
2016	12,994	3,286	1,509,491
2017	14,858	3,367	1,640,010
2018	21,422	5,926	1,742,404
2019	26,600	6,358	1,899,428

Source: Data from PSSSA (2020)

Ethiopia's public servants pension fund is administered by the Public Servants' Social Security Agency (PSSSA) and the number of pension beneficiaries has reached approximately 1.90 million in 2019 with an increase as well in pension contributions and pension payments as shown in the table above. Similarly, the membership of the private employees' social security scheme, POESSA, has also grown, with 130,000 organizations and almost one million individuals being part of this scheme from 2011/12 to 2015/16, and the active labor force covered by the scheme was 1.9 million in 2016 (Abels & Guven, 2016). Portfolio mix of assets invested by PSSSA amounted to 30.9 billion ETB and 11.2 billion ETB was the portfolio mix of assets invested by POESSA respectively (Berihun, 2017). Considering the recorded double digit inflation rate observed during the past four years, the investment portfolio of the security agencies is expected to have increased tremendously.

4.5 Discussion of Results

Various existing and future plausible opportunities and challenges are identified in the study which are discussed here within and consonance or dissimilarity with previous researches are stated. The certified accountants chose the banking and financial sector as the most desirable market option to deploy one's investment. The telecommunication and IT sector is also the other desirable investment alternative for stock market participants. High return in the range between 25% to 35% are expected from the stock market due to high inflation rates and the rapid birr devaluation against the dollar. The willingness or desire by the accountants to be involved as financial advisors or brokers in the stock market and other related jobs the market brings about is an opportunity to be utilized before launching the market. The accuracy of published financial statements is a vital issue that needs to be regulated and checked to have fair and feasible stock market. All accounting information that are disclosed are equally important as per the experts which include, expected corporate earnings from financial statements e.g., EPS, profit and position condition of income statements and balance sheet of a firm, dividends paid and price of a share. The current accounting disclosures that are being applied in Ethiopia are not capable of disclosing future stock returns and trading volumes which suggests the current accounting standards can only give relevant information in today's market but will find it difficult to disclose future stock returns. Therefore, developing financial statements as per the required standards is a critical issue that needs to be addressed before launching stock market in Ethiopia.; whereby Penman (2002) has recognized the need for a modernized financial reporting in the information age of stock market dealings.

An opportunity exists as the current accounting, auditing, and reporting standards can handle the launch of stock market in Ethiopia. The new stock market regulations are known by the professionals and are also willing to participate in the stock market but a challenge exists as there is a lack of professional fund managers who specialized in the stock market. A further challenge is the financial literacy of most of the clients which are investors' unwillingness to disclose their business's financial information and lack of advanced financial literacy. But there exists a potential investor and issuer base that can participate in stock market. The new stock market regulation and the revised commercial code provide the ground to launch it in Ethiopia. The high exchange rate of the birr against the dollar and the high current inflation rates are also presumed challenges for the stock market; the result is consistent with that of Yunita & Robiyanto (2018) who stated, exchange rate change and inflation rates have significant effect on financial sector and stock price index. The experience from Ethiopia's Commodity Exchange will help to launch an electronic online stock trading service which can be implemented accordingly. The demand for stock market is confirmed by the mismatch between low-interest rates for saving and the high-interest rates of loans. Initial Public Offerings are more preferred than secondary market instruments, and in Ethiopia are also agreed upon statements; which will give capital access to new companies.

Among the various opportunities and challenges identified that exist to launch stock market in Ethiopia is the investor base available to engage in the market, in which the social security pension funds could be used as an alternative investor source. But obstacles exist within both the social security agencies in terms of the inability of the current organizational structure to invest the pension fund efficiently in stock market. The shortage of experts or qualified professionals in pension fund investment, and particularly stocks market management, in both agencies needs due consideration if investing the pension fund in stock markets is to be considered. But the experts at both agencies have the required knowledge on accounting, auditing, and reporting standards that can handle the stock market, therefore, suggesting the gap that exists in the shortage of expertise level stock trading can be filled in with minimum effort. In the meantime, preparations underway in both agencies to trade in the upcoming stock market is to be considered as one of the opportunities to launch the stock market. And the legal permit that allows investing pension fund investment in the stock market is another opportunity that is identified in the study. As pension funds are sensitive investment portfolio due consideration is required not to incur a loss in their investment return which can be a challenge not to invest in risky sectors. Therefore, pension fund investment in equities should be limited to a certain percentage to have a controllable limit of loss as identified by the mean scores. The profitability of stock market to being an alternative for pension fund investment and its competitiveness as viable source than treasury bills, fixed time deposits, government bonds, demand deposits, and saving accounts is also confirmed; therefore, the stock market will bring new alternative opportunity towards the pension fund deposits, this is consistent with Alda (2017) in which the relationship between pension funds and the stock market is duly identified. To reduce the risk of being involved experience sharing platforms from other countries practice of investing pension in stock markets is also suggested in research.

Parameters used to assess the recent economic status of Ethiopia showed that the net adjusted savings has increased almost two folds and Ethiopia's GDP increased by 76 billion USD in the past decade, which is also evident in the GDP per capita which rose by approximately 600 USD. Ethiopia's GDP is the 7th highest in Africa as per World Bank 2021 reports. The economic growth observed creates feasible ground to launch stock market as it is also confirmed by Mian & Nawaz (2010) in which the economic growth and its size affects stock markets of a country as well as the market capitalization in an emerging market.

The metrics used by the world bank on the property rights and rule-based governance scores showed that Ethiopia's status lay at a mid-level range. Double figured annual inflation rates as high as 32.01% are also recorded recently. High inflation rates have long term effects in stock markets in which Omran & Pointon (2001) studied the existence of significant long-run and short-run relationships between inflation and stock market performance, implying that the inflation rate has had an impact upon the Egyptian stock market performance generally.

The ease of doing business score being in the mid-level range and has risen slightly and the increase in export volume index along with the reduction in the number of procedures required to register business also are the supporting blocks of launching stock markets. The significant population number also indicates the need for various financial resource instrument to fund capital requests. The increase in the accessibility of ICT infrastructure, import rise of IT facilities and internet penetration also in the past will support the launch stock market electronic platform. The billions of birrs the pension fund of Ethiopia it as in its portfolio mix of assets suggests there exists a commendable alternative stock market investment base for Ethiopia's stock market.

Chapter 5

Summary, Conclusions and Recommendations

This chapter summarizes the study's major findings, as well as the inferences drawn from the findings and the recommendations offered. It also discusses the study's limitations as well as potential research prospects.

5.1 Summary

The objective of the study was to assess the challenges and opportunities that exist to launch stock market in Ethiopia. The theoretical, conceptual and empirical related literature review showed that there exists plenty of challenges and opportunities to launch stock market in Ethiopia, studied under the scheme of the pension fund as investment base, financial literacy & awareness, economic size and development, accounting and auditing standards. The researcher used a quantitative research approach by employing both descriptive and exploratory research designs. The research data was collected through two structured questionnaires and other relevant secondary data were also used. The validity and reliability of the instruments were tested and ensured that it is within the required standards. The sample size for certified accountants was determined using a formula published by the National Education Association of USA, for a known population and respondents were selected using a convenience sampling technique. As the population of the second target were only 27, no sampling techniques were used in that case.

Two separate measurements were used to assess the challenges and opportunities to launch stock market in Ethiopia. The first part measured the pension fund and its managing agencies as an investment source for the stock market and the second part assessed the opinions of certified accountants of ACCA Ethiopia, in to the challenges and opportunities for the stock market. In the first category, the response of 27 financial experts at the FDRE private organizations employee's social security agency and FDRE public servants' social security agency were analyzed in relation to internal factors, pension fund, and external factors towards launching stock market in Ethiopia. And in the second category, 101 questionnaires from the sampled ACCA members were used for the analysis in which analysis was performed within the scope of accounting, expertise, investor base, external environment and investment return. Most of the measurements used a five-point Likert scale. The questionnaires from the sample respondents were returned and mainly descriptive statistics were performed using a statistical tool SPSS Version 26 to analyze the data in both cases.

The majority of the respondents chose the banking and financial sector as the most desirable market option and expect a high return from their stock market investment. Accountants expressed their willingness to be involved in the stock market as professionals in the capacity ranging from financial advisors or brokers in the stock market and other related jobs in the market. The majority of the respondents agreed that the accuracy of published financial statements is a vital issue that needs to be regulated and checked to have a fair and feasible stock market, and all accounting information that are disclosed are equally important. Further, the current accounting disclosures that are being applied in Ethiopia are not capable of disclosing future stock returns and trading volumes.

As per the mean values from the respondents' replies the current accounting, auditing, and reporting standards can handle the launch of stock market in Ethiopia. And the new stock market regulations are known by the professionals and are also willing to participate in the stock market as potential investors. There also exists a potential investor and issuer base that can participate in stock market. Here the social security pension fund to be used as an alternative investor source is confirmed from the results of the findings. The profitability of stock market and to being an alternative for the pension fund investment and its competitiveness as a viable source than treasury bills are also the other findings of the study. Ethiopia’s economic size as expressed by its GDP and GDP per capita figures along with its rank in Africa, shows it has enough resources for the stock market. Challenges in relation to inflation rates and exchange rates are also identified by the study.

5.2 Conclusions

The study provides important findings concerning challenges and opportunities that are predominant to launch the stock market in Ethiopia. Further, the result from the respondents’ background information from the social security agencies shows that they have a reasonable level of understanding and opinion on pension funds and stock markets, as well as the challenges and opportunities they present. And the respondents from ACCA Ethiopia have a valuable level of experience and education to consider their opinion and analyze their responses in relation to the stock market and the challenges and opportunities that exist to launch it in Ethiopia.

The findings of the study reveal the challenges that exist to launch stock market are; Existing accounting disclosures in Ethiopia are incapable of disclosing future stock returns and trading volumes, implying that current accounting rules can only provide relevant information in the present market and will find it difficult to disclose future stock returns. Another challenge identified by the study is the scarcity of stock market-experienced professional fund managers. An additional issue is most clients of the accountants lack advanced financial literacy and the reluctance of business owners to share financial details of their firms. The high exchange rate of the birr against the dollar and the high inflation rate currently being recorded are also other presumed challenges for the stock market. The expectation of high return rates that exceed the inflation rate from the stock investments by trades is also another challenge identified in the study. The obstacles that exist within both the social security agencies in terms of the inability of the current organizational structure of the firms to invest the pension fund efficiently in stock market. And the shortage of experts or qualified professionals in pension fund investment, and particularly stock market management, in both agencies needs due consideration if investing the pension fund in stock markets is also another challenge disclosed by the study. Due to the sensitive nature of pension funds' investment portfolios, extra caution is essential to avoid a loss in investment return, which can be difficult to avoid when investing in riskier areas; which is also identified by the research study.

The result of the study also revealed the opportunities that exist to launch stock market as in the banking and financial sector, the telecommunication and IT sector will provide attractive investment alternatives for stock market participants. The willingness or desire of accountants to work as financial advisors or brokers in the stock market, as well as other associated jobs, is an opportunity to be exploited prior to the market's introduction. The ability of the current accounting, auditing, and reporting standards to handle the launch of stock market in Ethiopia is a studied opportunity that exists. Familiarity of the new stock market regulations by the accounting professionals and their desire to participate in the stock market are also other opportunities the study identified. The existence of a potential investor and issuer base that can participate in stock market and the revised commercial code also provide the ground to have the market in Ethiopia. The experience garnered from Ethiopia's Commodity Exchange in helping launch an electronic online stock trading service that can be implemented accordingly and the demand for stock market is confirmed by the mismatch between low-interest rates for saving and the high-interest rates of loans are also opportunities found by the study. The investor base available to engage in the market, in which the social security pension funds could be used as an alternative investor source is a significant opportunity for the stock market investor base. The experts at both agencies have the required knowledge on accounting, auditing, and reporting standards that can handle the stock market, therefore, suggesting the gap that exists in the shortage of expertise level stock trading can be filled in with minimum effort.

Meanwhile, the preparations being made by both agencies to trade in the impending stock market, and the legal opening that allows investing pension fund investment in the stock market are the other opportunities that are identified in the study. The stock market's profitability as a viable source of investment for pension funds, as well as its competitiveness against Treasury bills, fixed time deposits, government bonds, demand deposits, and savings accounts, has been validated as an opportunity. Therefore, the stock market will bring new alternative opportunities towards pension fund deposits.

The decent economic growth recorded in the past decade and the future positive growth prospects along with the average scores in property rights, ease of doing business, and rule-based governance are opportunities for the stock market. The increase in the accessibility of ICT infrastructure, import rise of IT facilities and internet penetration will support the launch stock market electronic platform. The billions of birrs the Ethiopian pension fund has in its portfolio mix of assets implies that Ethiopia's stock market has a noteworthy alternative investment base.

5.3 Recommendations

Concerned parties should consider implementing the following suggestions identified in the course of the study before launching Ethiopia’s stock market;

- Developing financial statements as per the required standards, and the improvement of accounting, auditing and legal infrastructures as they are critical issues that need to be addressed before launching stock market in Ethiopia.
- The accuracy of published financial statements is a vital issue that needs to be regulated and checked to have a fair and feasible stock market. All accounting information that are disclosed are equally important as per the experts which include, expected corporate earnings from financial statements e.g., EPS, profit and position condition of income statements and balance sheet of a firm, dividends paid and price of a share.
- Informing potential investors, as well as the general public about the cons and pros of a stock market, should be a top focus before the launch. As part of the stock market

development initiative, a nationwide forum of public education on the dealings of the stock market system shall be implemented.

- In order to fill the gap that exists in the shortage of expertise on stock trading capacity buildings for employees of the social security agencies and business owners are also required.
- Government should promote the publishing of financial statements as companies to be traded in the market need to be more transparent than other companies, by incentivizing them through various measures.
- Initial Public Offerings which give capital access to new companies should be given due attention as secondary market instruments.
- To avoid the tragic loss of the pension fund, its investment in equities should be limited to a certain percentage to have a controllable limit of loss.
- To reduce the challenges that arise from being new comer in the stock market, knowledge and technical skill sharing platforms from other countries' experiences are suggested.
- Macro-economic management proceedings are required to curb and reduce the long-term effect, the risks of high inflation rates, and the high dollar-to-birr exchange rate, impose on future stocks.

5.4 Limitations and Suggestions for Future Research

- One of the limitations of the study was it only focused on the accounting standards, pension fund as an investment base, economic dimensions and other related factors. Thus, the researcher recommends future researchers to include other factors when studying the challenges and opportunities in stock market in addition to the above stated ones such as political stability, education and public awareness and fiscal policy/taxation policy.
- This study only included respondents from Addis Ababa. Therefore; the researcher suggests that for future research to include accounting and investment fund experts based outside of Addis Ababa in order to make a better generalization of the results for the entire county.
- The last suggestion of the study is to redo the research within the current study’s scope after the stock market goes into full operation and test if discrepancies exist between this research and future results.

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Annex 1: Research Questionnaires

Questionnaire for Members of ACCA

St. Mary's University

School of Graduate Studies

Department of Master of Business Administration

Dear respondent;

The purpose of this study is for the partial fulfillment of the requirements for the Master of Business Administration at St. Mary's University. The objective of this questionnaire is to gather information on the Challenges and Opportunities to Launch Ethiopia's Stock Market. All information you provide will be kept strictly confidential and shall be used for academic purposes. However, the findings of the research may be used to suggest new insights into the new stock exchange of Ethiopia.

The following set of statements relates to your opinions about accounting standards, expertise, external environmental factors, and returns related to stocks and investment funds. For each statement, please show the extent to which you believe relates to Ethiopia's financial environment described by the statement.

The questionnaire has three parts. The first part deals with the background of the respondent, part two deals with the survey on the perception of stocks and relatable subjects and the third section surveys perceptions of accounting standards, expertise, external environmental factors, and returns related to stocks and investment funds. The questions don't take you more than 10 minutes to complete so you are kindly requested to fill all questions.

Thank you very much in advance for your cooperation and time!

Please contact me in case you have any questions.

Adonay Desta

adonaydkm@gmail.com

Part I: Background Information

Instruction:

Please put a tick ("✓") mark in the box that identifies your response.

1. Age

☐ 21-29 ☐ 30-39 ☐ 40-49 ☐ 50 years and above

2. Gender

☐ Male ☐ Female

3. Education Level

☐ Diploma ☐ Bachelor's Degree ☐ Masters and above

4. Current Occupation

☐ Self Employed ☐ Private Sector

☐ Public Sector ☐ Other

5. Job Position

☐ Manager ☐ Junior Accountant ☐ Senior Accountant

☐ Mentor ☐ Other Specify

6. Work Experience

☐ Less than 4 years ☐ 4 - 8 years

☐ 9 – 12 years ☐ More than 13 years

Part II: Perceptions of Stock Markets

Directions: The following set of questions are related to your opinions about stocks and relatable topics. For each question, please select the answer that identifies the most concerning your perception of the subject.

1. Which sector do you consider provides the most wanted stock?
   a. Telecom and IT
   b. Banking and Insurance
   c. Steel and Industries
   d. Pharmaceuticals and Health
   e. Agriculture
2. What annual return (in percentage) from your investment do you consider **realistic** under the current conditions in the financial markets?
   a. Up to 15% per annum
   b. 15% to 25% per annum
   c. 25% to 35% per annum
   d. Above 35% per annum
3. Which of the professions do see yourself being part of in the stock market?
   a. Broker or Financial adviser
   b. Agent
   c. Research analyst
   d. Accountant
   e. None
4. Which concerns and worries about the stock market weigh more?
   a. Fear of losing money
   b. Lack of ethics in the marketplace
   c. The state of the economy
   d. Accuracy of published financial statements
5. Which of the following accounting information will you mostly use to trade in the stock market?
   a. Expected corporate earnings from financial statements e.g., EPS
   b. Profit and position condition of income statements and balance sheet of a firm.
   c. Dividends paid.
   d. The price of a share.
6. Please choose where you had your stock market knowledge from,
   a. Websites
   b. Professional Advisers
   c. Training
   d. Books
   e. University

Part III: Influencing Factors

Directions: The following set of statements relate to your opinions about accounting standards, expertise, external environmental factors, and returns related to stocks and investment funds. For each statement, please show the extent to which you believe relates to Ethiopia's financial environment by putting a mark ("✓") on your relatable statement.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Accounting					
AC1	The current accounting disclosures are capable of disclosing future stock returns and trading volumes.					
AC2	The company valuation techniques used by investment professionals are mainly based on accounting numbers.					
AC3	Financial statements are the primary source of information for stock market participants and analysts.					
AC4	The current accounting standards give reliable and relevant accounting information.					
AC5	We currently have accounting, auditing, and reporting standards that can handle a stock market.					
AC6	International financial reporting standards and quality are applicable in Ethiopia.					
	Expertise					
EX1	The lack of professional fund managers who have specialized in the stock market is a challenge for the stock market.					
EX2	I know the new regulations of stock exchange markets and related regulatory frameworks.					
EX3	I have enough education or qualification in the field of stock market investment instruments.					
EX4	I have the willingness to participate in the stock market.					

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Investor					
IN1	The financial literacy of my clients can handle the complexity of the stock market.					
IN2	Lack of awareness about financial laws will be a challenge for the stock market in Ethiopia.					
IN3	There is an unwillingness among Ethiopian business owners to provide financial information.					
IN4	There is a potential investor and issuer base to participate in the stock market.					
	Environment					
EN1	The regulatory framework and system in place are feasible to launch the stock market in Ethiopia.					
EN2	The high exchange rate of the birr against the dollar will be a challenge for the stock market.					
EN3	The high current Inflation rates will be a challenge to the stock market.					
EN4	Electronic online stock trading service can easily be implemented in Ethiopia.					
EN5	Local companies lack proper corporate governance as well as compliance with generally-recognized reporting standards/ transparency requirements.					
	Return					
R1	Even though Ethiopia's stock market is new; I expect a decent return rate on my stock investment.					
R2	Initial Public Offerings are more preferred than secondary market instruments.					
R3	The mismatch between low-interest rates for saving and the high-interest rates of loans implicates the need for the stock market in Ethiopia.					

Questionnaire For PSSSA and POESSA Employees at The Investment and Fund Management Directorates

St. Mary's University

School of Graduate Studies

Department of Masters of Business Administration

Dear respondent;

The purpose of this study is for the partial fulfillment of the requirements for the Master of Business Administration at St. Mary's University. The objective of this questionnaire is to gather information on the Challenges and Opportunities to Launch Ethiopia's Stock Market. All information you provide will be kept strictly confidential and shall be used for academic purposes. However, the findings of the research may be used to suggest new insights into the new stock exchange of Ethiopia.

The following set of statements relates to your opinions about pension funds, stock markets, and external and internal environmental factors related to stock markets. For each statement, please show the extent to which you believe relates to Ethiopia's financial environment described by the statement.

The questionnaire has two parts. The first part deals with the background of the respondent and part two deals with the survey on the perception of respondents on stocks, pension funds, and external and internal environmental factors. The questions don't take you more than 5 minutes to complete so you are kindly requested to fill all questions.

Thank you very much in advance for your cooperation and time!

Please contact me in case you have any questions.

Adonay Desta

adonaydkm@gmail.com

Part One: Background Information

Instruction:

Please put a tick ("✓") mark in the box that identifies your response.

1. Age

☐ 21-29 ☐ 30-39 ☐ 40-49 ☐ 50 years and above

2. Gender

☐ Male ☐ Female

3. Education level

☐ Diploma ☐ Bachelor's Degree ☐ Masters and above

4. Work Position

☐ Manager (Head) ☐ Junior Level ☐ Senior Level

☐ Other Specify_______________

5. Work Experience

☐ Less than 4 years ☐ 4 - 8 years

☐ 9 – 12 years ☐ More than 13 years

Part II: Influencing Factors

Directions: The following set of statements relate to your opinions about pension funds, stock markets, and external and internal environmental factors related to stock markets. For each statement, please show the extent to which you believe relates to Ethiopia's financial environment by putting a mark ("✓") on your relatable statement.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Internal Factors					
1	The current organizational structure of the agency is capable to manage the pension in stock market.					
2	The agency has experts or qualified professionals in pension fund management, particularly stocks.					
3	There are preparations made by the agency to trade in the upcoming stock market.					
4	The agency needs capacity building of its employees regarding portfolio management, liquidity management, and other related areas.					
	Pension Fund					
5	The market profitability of the current pension fund investment in Ethiopia is very attractive.					
6	The legal framework that governs the administration of pension funds can be used to get involved in the stock market.					
7	The expectation in pension funds not to incur a loss in their investment can be a challenge not to invest in the stock market.					
8	The share of assets that pension funds can invest in equities should be limited to a certain percentage value.					
	Stock Market					
9	The stock market can be a viable (profitable) alternative for pension fund investment.					

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
10	Stocks as pension fund investment assets can be competitive with treasury bills, fixed time deposits, government bonds, demand deposits, and saving accounts.					
11	Investing the pension fund in the stock market will help the agency earn returns higher than the inflation rate.					
12	The agency has experts capable of handling (involving) knowledge, readiness, and attractiveness in the stock market.					
13	I know the new regulations of stock exchange markets and related regulatory frameworks.					
14	We currently have accounting, auditing, and reporting standards that can handle a stock market.					
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	External Factors					
15	There are plenty of alternative opportunities for pension fund investment in Ethiopia.					
16	The cost of pension fund investment in Ethiopia is high.					
17	Experience sharing platforms from other countries in stock market pension fund investment is needed before involving the agency in the stock market.					
18	High government intervention in the management of pension funds can hinder the involvement in the stock market.					
19	Inflationary pressures prohibit to invest the pension fund in the stock market.					
20	There is a clear guideline, policy, strategy, and mission statement that guides investing the pension fund in the stock market.					

Annex 2: SPSS Results

Pearson's Correlation on Questionnaire items For PSSSA and POESSA Employees at The Investment and Fund

Table A2.1 Pearson's Correlation For Internal Factors

		Int-1	Int-2	Int-3	Int-4	Internal
Int-1	Pearson Correlation	1	.778**	0.223	0.248	.879**
	Sig. (2-tailed)		0	0.317	0.265	0
	N	22	22	22	22	22
Int-2	Pearson Correlation	.778**	1	0.332	.448*	.929**
	Sig. (2-tailed)	0		0.132	0.036	0
	N	22	22	22	22	22
Int-3	Pearson Correlation	0.223	0.332	1	0.114	.458*
	Sig. (2-tailed)	0.317	0.132		0.615	0.032
	N	22	22	22	22	22
Int-4	Pearson Correlation	0.248	.448*	0.114	1	.555**
	Sig. (2-tailed)	0.265	0.036	0.615		0.007
	N	22	22	22	22	22
Internal	Pearson Correlation	.879**	.929**	.458*	.555**	1
	Sig. (2-tailed)	0	0	0.032	0.007	
	N	22	22	22	22	22

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table A2.2 Pearson's Correlation For Pension Fund

		Pen-1	Pen-2	Pen-3	Pen-4	Pension
Pen-1	Pearson Correlation	1	.733**	.516*	.586**	.946**
	Sig. (2-tailed)		0	0.014	0.004	0
	N	22	22	22	22	22
Pen-2	Pearson Correlation	.733**	1	0.286	.520*	.809**
	Sig. (2-tailed)	0		0.198	0.013	0
	N	22	22	22	22	22
Pen-3	Pearson Correlation	.516*	0.286	1	0.033	.629**
	Sig. (2-tailed)	0.014	0.198		0.886	0.002
	N	22	22	22	22	22
Pen-4	Pearson Correlation	.586**	.520*	0.033	1	.665**
	Sig. (2-tailed)	0.004	0.013	0.886		0.001
	N	22	22	22	22	22
Pension	Pearson Correlation	.946**	.809**	.629**	.665**	1
	Sig. (2-tailed)	0	0	0.002	0.001	
	N	22	22	22	22	22

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table A2.3 Pearson's Correlation For Stock Market

		Stk-1	Stk-2	Stk-3	Stk-4	Stk-5	Stk-6	Stock
Stk-1	Pearson Correlation	1	.698**	.777**	0.285	-0.053	0.088	.678**
	Sig. (2-tailed)		0	0	0.198	0.814	0.699	0.001
	N	22	22	22	22	22	22	22
Stk-2	Pearson Correlation	.698**	1	.591**	0.117	0.419	.574**	.780**
	Sig. (2-tailed)	0		0.004	0.604	0.052	0.005	0
	N	22	22	22	22	22	22	22
Stk-3	Pearson Correlation	.777**	.591**	1	0.254	-0.09	0.216	.657**
	Sig. (2-tailed)	0	0.004		0.253	0.69	0.334	0.001
	N	22	22	22	22	22	22	22
Stk-4	Pearson Correlation	0.285	0.117	0.254	1	.481*	.525*	.681**
	Sig. (2-tailed)	0.198	0.604	0.253		0.023	0.012	0
	N	22	22	22	22	22	22	22
Stk-5	Pearson Correlation	-0.053	0.419	-0.09	.481*	1	.890**	.618**
	Sig. (2-tailed)	0.814	0.052	0.69	0.023		0	0.002
	N	22	22	22	22	22	22	22
Stk-6	Pearson Correlation	0.088	.574**	0.216	.525*	.890**	1	.766**
	Sig. (2-tailed)	0.699	0.005	0.334	0.012	0		0
	N	22	22	22	22	22	22	22
Stock	Pearson Correlation	.678**	.780**	.657**	.681**	.618**	.766**	1
	Sig. (2-tailed)	0.001	0	0.001	0	0.002	0	
	N	22	22	22	22	22	22	22

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table A2.4 Pearson's Correlation For External Factors

		Ext-1	Ext-2	Ext-3	Ext-4	Ext-5	Ext-6	External
Ext-1	Pearson Correlation	1	.490*	.432*	.599**	.573**	0.093	.738**
	Sig. (2-tailed)		0.021	0.045	0.003	0.005	0.679	0
	N	22	22	22	22	22	22	22
Ext-2	Pearson Correlation	.490*	1	.823**	0.293	.614**	0.311	.781**
	Sig. (2-tailed)	0.021		0	0.185	0.002	0.16	0
	N	22	22	22	22	22	22	22
Ext-3	Pearson Correlation	.432*	.823**	1	0.354	.471*	0.386	.752**
	Sig. (2-tailed)	0.045	0		0.106	0.027	0.076	0
	N	22	22	22	22	22	22	22
Ext-4	Pearson Correlation	.599**	0.293	0.354	1	.835**	.671**	.805**
	Sig. (2-tailed)	0.003	0.185	0.106		0	0.001	0
	N	22	22	22	22	22	22	22
Ext-5	Pearson Correlation	.573**	.614**	.471*	.835**	1	.633**	.895**
	Sig. (2-tailed)	0.005	0.002	0.027	0		0.002	0
	N	22	22	22	22	22	22	22
Ext-6	Pearson Correlation	0.093	0.311	0.386	.671**	.633**	1	.614**
	Sig. (2-tailed)	0.679	0.16	0.076	0.001	0.002		0.002
	N	22	22	22	22	22	22	22
External	Pearson Correlation	.738**	.781**	.752**	.805**	.895**	.614**	1
	Sig. (2-tailed)	0	0	0	0	0	0.002	
	N	22	22	22	22	22	22	22