Should Ethiopia Consider Establishing of A Stock Exchange?

A Thesis Submitted In Partial Fulfillment for the Award of Master of Business Administration in Finance

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College of Management, Information, and Economic Sciences

School of Business and Public Administration

MBA Program

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Board of examiners:

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Examiner's Name	Signature	Date

DECLARATION BY CANDIDATE

I, the undersigned, hereby declare that this thesis entitled "should Ethiopia consider establishing of a stock exchange?" is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been acknowledged.

AHFEROM TEKLAY G/TSADKAN _____ _____

Name of the Candidate Signature Date

CERTIFICATION

This is to certify that AHFEROM TEKLAY carried out this thesis on the topic “should Ethiopia consider establishing of a stock exchange?” under my supervision. This work is original in nature and is suitable for submission for the award of master of Business Administration.

ABEBE YITAYEW	_____	_____
Advisor’s Name	Signature	Date

Abstract

An organized and efficient stock exchange has a positive impact on the economic growth by increasing saving and efficiently allocate capital to productive investments, allocate capital to corporate sector, increasing liquidity of financial assets etc. while this is the truth, it is difficult to predict the time in which a stock exchange will be established in our country. So I study to answer the question 'should Ethiopia consider establishing of a stock exchange?' To answer this question I tried to collect data from shareholders, share companies respective managers, academicians and National Bank of Ethiopia's officials in one hand and from previous writings in the area on the other hand. I found that even tough the preconditions are not fulfilled fully, this is the right time to start work to establish a stock exchange and we can start operation at a minimum level. But the government has to be involved fully and have to control, follow and supervise the process.

Key Word:

Stock exchange

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CHAPTER ONE

INTRODUCTION

1.1. Background

The value of stocks listed in the stock exchanges around the globe is increasing from time to time. Levine (1996) presents over the past 10 years, 1985-1995, the total value of stocks listed in the world's entire stock markets rose from $4.7 trillion to $15.2 trillion. As it is depicted in the Wikipedia this is estimated at about $36.6 trillion at the start of October 2008. The share of total world capitalization represented by the emerging markets jumped from less than 4 percent to almost 13 percent. Trading in the emerging markets also surged: the value of shares traded climbed from less than 3 percent of the world total in 1985 to 17 percent in 1995. in the same manner as it is presented in the "report of the feasibility study on the establishment of the pan African stock exchange", which is prepared by the African Union Department of Economic Affairs in October 2008, there were twenty-three stock exchanges with a listed companies of 1714 in the African continent in the year 2008.

The number of companies listed on African stock markets fell from 1,834 in 2002 to 1,714 in 2006 that is a reduction of 120 companies over the five years. This number is slightly higher than that of the total number of companies listed on the financial markets

in Malaysia Thailand (1,427) and is lower than the number of companies listed in the London Stock Exchange (2,682) or the Madrid Stock Exchange (3,223) in 2003 (ibid).

The volume of operations or transactions is the total number of deals carried out on a stock exchange. Between 2002 and 2006, it moved from 86.4 billion US dollars to 368.3 billion US dollars, i.e. an overall increase of 76.5% for the whole of Africa over this period (ibid).

Although some analysts view stock markets in developing countries as "casinos" that have little positive impact on economic growth, recent evidence suggests that stock markets can give a big boost to economic development (Levine, 1996). While this is the truth, establishment of stock exchange and its related issues are undermined by the government and stakeholders in our country.

Different parties (like Addis Ababa Chamber of Commerce and Sectoral Associations) and scholars (Asrat Tessema, Abebe Yitayew, Solomon Gizaw and so on) conducted a study in the area of establishment of stock exchange or securities market in Ethiopia. And to mention some of them Professor Asrat Tessema is the one. Tessema conducted a research entitled “Prospects and Challenges for Developing Securities Markets in Ethiopia: An Analytical Review” in 2003. In his study he tries to points out from the literature the benefits which can get from well functioning securities markets; costs and environmental requirements for securities markets development and environment for developing securities markets in Ethiopia which includes the challenges and prospects for the development of securities market in Ethiopia. Additionally Abebe (2006) also

conducts a research by focusing in stock exchanges role in relation to an alternate to term-loan financing and its development dubious. And in that specific article, entitled "An alternate to term-loan financing on the horizon, its development dubious: securities market, the missing link", Abebe tried to cover the benefits, the history of stock exchange in our country, its role in economic growth and the environment at that time. Like wise the other researchers also conducts their research in such a way.

And in those studies, as they are conducted some years back, they may not represent the current situation. Therefore in this study the researcher was focused particularly on considering establishing stock exchange in Ethiopia and it will try to see the role of stock exchange in the long run economic growth, its role as an alternate source of finance and the current challenges and prospects for establishment of stock exchange. Having this accomplished the policy makers may get an input from the final report and it may motivate other giant scholars to do additional researches. Additionally it is expected to serve as a reference for the new researchers in the area.

1.2. Statement of the Problem

Stock exchange has a multiple advantage especially for the developing or emerging economy. As Levine (1996) states that greater stock market liquidity boosts or at least precedes economic growth and GDP grows faster in economies with liquid stock markets. And there are a lot of benefits, as it is presented in the literature review part, can get from a well established stock exchange as it is written and said by a lot of scholars. And in our country from the past five or six years we experience that there is a rapid growth, or at least a stable economy, but there is no established capital market in general and stock market in particular. Even though the scholars are

in debating whether the financial market development causes an economic growth or the economic growth creates the financial market development, most recent empirical evidences especially from developing countries shows that the financial market development accelerates economic development. And even tough this is the case, in our country there is no stock exchange established and it is difficult to predict, from the situation, when the stock exchange will be established. Therefore this study was attempted to see whether this is the right time to establish a stock exchange in Ethiopia or not.

Having the main objective of investigating whether Ethiopia should consider establishing stock exchange or not, this study was tried to answer the following questions:

- ✓ What role stock exchange has in the long run economic growth?
- ✓ How can stock exchange become an alternate source of finance?
- ✓ What are the challenges and prospects for establishing stock exchange in Ethiopia?

1.3. Objectives of the Study

General objective

The main purpose of this study was to investigate whether Ethiopia should consider establishing stock exchange or not.

Specific objectives

In order to achieve the above general objective of the study the following specific objectives were addressed while working on the topic:

- ✓ Describe the role of stock exchange in the long run economic growth
- ✓ Identify stock exchange contribution as an alternate source of capital
- ✓ Explore the challenges and prospects for establishing stock exchange in Ethiopia

1.4. Hypothesis

H_0: Ethiopia should consider establishing stock exchange.

H_1: Ethiopia should not consider establishing stock exchange.

1.5. Significance of the Study

After the accomplishment of this research it has the following significances.

1. It provides accurate information to the policy makers, so that they can use it as input in their policy development.
2. It may become a motivator for the scholars in the area to conduct scientific researches in relation to stock exchange establishment in Ethiopia.
3. It may serve as a reference for the upcoming new researchers on related topics in doing their research

1.6. Delimitation of the Study

This study, as it is indicated in its title, focuses on consideration of establishing stock exchange in Ethiopia.

Though the researcher believes it is necessary to conduct a research in all aspects of stock exchange in detail including developing the stock exchange proposal, identifying the listing requirements, and so on, because of its broadness and limit of time and budget, the scope of this study was delimited only to the consideration of establishing stock exchange in Ethiopia. While doing on this topic the researcher tries to see the role of stock exchange in the long run economic growth, its role as an alternate source of finance and the current challenges and prospects for establishment of stock exchange.

1.7. Limitation

While conducting this study the following limitations hinder the researcher to do its best

- The respondents, sometimes, fill the questionnaire irresponsibly. Those respondents are shareholders and that is why the researcher tries to analyze only 86 of the 100 questionnaires disseminated to the shareholders.
- As the time and resource available for this research is limited, it becomes difficult to select much more sample for the study in other words to make the study practical the researcher forced to use minimum sample size.
- It was difficult to get the number of population and the researcher is forced to use a convenience sampling.
- It becomes difficult for me to get the share holders as the share companies annual meeting, most of the time, is in November.

1.8. Methodology

1.8.1. Research Strategy

The target of this study was share holders, management of share companies, academicians and respective government officials (National Bank officials). This means this research was focused on the owners, managers, scholars and regulators of the stocks in the economy. So the population for this study was the total shareholders, financial and general managers in the economy in one hand and scholars and the national bank officials in the other hand. But in this point it was difficult to get the accurate number of share holders so that it was difficult to know the total population. Therefore the researcher was tried to draw samples of shareholders by considering the time and budget limit and management. On the other hand it is somewhat easy to select and access the financial managers. Having this the researcher select 100 shareholders and 10 financial managers as a sample for the questionnaire and meet the national bank officials for the interview. But in the actual work out of the 100 share holders I tried to analyze the response of those 86 respondents as some of them didn't return the questionnaire and some of them fill it irresponsibly. So the return rate for the questionnaire from the share holders is 86%. But the questionnaires disseminated to the respective managers of the shareholders are fully returned. To select the sample the researcher used convenience sampling methods for the sake of simplicity and efficient use of time and resource as well it becomes difficult to get the full list of population.

1.8.2. Data Collection Methods

For the purpose of getting enough data from the target group, the researcher was using both the primary and secondary sources of data. The first and mainly used source of data was primary source and was accomplished thorough two (2) techniques or instruments of data collection: questionnaire and semi-structured interview.

1. Questionnaire: for the advantage of covering wide area, and minimizing the cost of data collection the first instrument that have been used for collecting primary data was questionnaire which includes open ended and closed ended questions. There were two (2) questionnaires developed. The first questionnaire was translated in to Amharic and distributed to selected individual share holders of share companies and the other was prepared in English version and distributed to the respective managers. In the case of the first questionnaire it is made in Amharic to get full information from the respondent as they may not be conversant in English. The second questionnaire will be in English.
2. Semi-structured interview: the second instrument was semi-structured interview. This was conducted for the purpose of gaining enough information from the respective national bank officials in regard to the government's intention in the establishment of stock exchange and from the academicians to get information in relation to the attitude and efforts of the academicians towards stock exchange.

   The second source of data was the secondary data. Here, I used the documents related to the stock exchange and it includes previous writings in the same subject.

1.8.3. Data Analysis Methods

After data collection process was finished the remaining work was analyzing and interpreting the collected data. The collected data were analyzed using different methods like percentage, tables, ratio etc. since the primary data collected, especially collected through questionnaire, was quantitative and qualitative in nature descriptive analysis technique was used and the results were compared and discussed with relevant stock exchange concepts.

1.9. Organization of the Paper

This final report of the paper has four chapters. The first chapter is the problem and its approach part and it includes introduction, statement of the problem, objectives, limitation of the study, delimitation of the study, significance of the study and methodology that have been used in the data collection, analysis and interpretation. The second chapter is the literature review chapter that includes the literatures that have been written by other researchers and scholars. The third chapter is the data presentation and analysis chapter which is the presentation and analysis of the data collected through different data collection techniques. And the last chapter is the fourth chapter and it is conclusion and recommendation. In this last chapter I tried to conclude based on the analysis done in the third chapter and the literature and I tried to forward a constructive recommendations.

CHAPTER 2

LITERATURE REVIEW

2.1. Definition of Stock Exchange

Different scholars define stock exchange in different ways.

- *Stock exchanges* are formal organizations that are made up of members that use the facilities to exchange certain common stock (Fabozzi and Modigliani, 1996).
- *Stock exchange,* like other financial markets, is a place where financial assets are bought and sold (Viney 2007: PP 172).
- *Stock market* is a market for corporate securities. Corporations may also issue debt securities, but the basis of all corporate enterprise resides in stock. It is stock that provides the initial capital for a corporate venture (Teweles and Bradley, 1998: pp 17).
- A *stock exchange* is a corporation or mutual organization which provides trading facilities for stock brokers to trade in stocks and other securities. Simply put, stock exchanges are open markets that trade in financial assets (Sakhile).
- A *stock exchange* is an entity that provides services for stock brokers and traders to trade stocks, bonds and other securities. Stock exchanges also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include shares issued by companies, unit trusts, derivatives, pooled

investment products and bonds (Wikipedia)

So from the above definitions we can say that stock exchange has a specified place and is also a formal organization which is made up of members, where financial assets including the common stock, debt securities and so on are bought and sold.

2.2. The Role of Stock Exchanges

Stock exchanges have multiple roles in the economy and those roles or benefits of stock exchange are interrelated and interdependence.

According to the Wikipedia a well established stock exchange have a role of raising capital for businesses; mobilizing savings for investment; facilitating company growth; profit sharing; corporate governance; creating investment opportunities for small investors; government capital-raising for development projects and it becomes barometer of the economy:

In addition Kibuthu (2005) adds the following importance of stock exchange while discussing the development of African stock exchanges:

- Higher savings rate of the working population;
- offering of a variety of securities to as many people as possible;
- Flow of foreign direct investment
- Distribution on capital in the most productive sectors of the economy
- Redistribution of wealth in the economy

- Improved corporate governance through increased transparency and access;
- Help create wealth and the long-term capital needed for development thereby facilitating poverty reduction and the improvement of living standards.

According to these literatures an established stock exchange has a lot of advantages or benefits. We can see those benefits from three perspectives. These are from the company, public and the economy at the whole. From the company perspective there is an organized secondary market for securities the share companies have an advantage of increasing their capital by providing shares for the market at the same time it helps to assure corporate governance by increasing transparency as the established stock exchanges have a requirements.

The second perspective will be the public or the individual investors perspective it increases savings rate of the working population, it shares profit and it creates investment opportunities for small investors by offering variety of securities to as many people as possible.

The third will be the economy as a whole. In this case firstly as it give a benefit to the company and to the public it has a direct impact on the economy. Secondly it increase flow of foreign direct investment, it helps to distribute capital to the most productive sectors of the economy; it redistribution of wealth in the economy. And lastly it becomes barometer of the economy, as the stock exchange is doing well the economy stays to be good.

2.3. Challenges and Prospects for Establishment of Stock Exchange in Ethiopia

While reviewing the literatures in relation to the challenges and prospects for establishment of stock exchange in Ethiopia it is better to look into, at least high lightly, the challenges of developing stock markets in Africa. And in this sense Kibuthu (2005) states the following points as challenges of developing stock market in Africa: the political and economic decisions that were translated into legal framework for the establishment and operation of the stock exchanges were rushed in many African countries; Many of Africa's stock exchanges are small, underdeveloped and illiquid; They tend to operate in isolation from other markets, have low trading volumes, are sheltered from competition by national regulations and face barriers to capital mobility because of high costs of travel and communications; African exchanges tend to be highly concentrated with the best shares being held by local pension funds, banks and insurance firms that do not want to sell because they have few alternative assets to buy with sales proceeds; The market infrastructure is underdeveloped; Stringent eligibility requirements; Limited presence of institutional investors; Lack of an active role in the distribution of securities to the public by other financial institutions such as banks, venture capital funds, pension funds, building societies and insurance companies; Creating an efficient regulatory system for securities exchanges is a difficult goal to achieve and maintain; Lack of trained manpower and experience; Lack confidence in the market; Political uncertainties and economic policies; and Low savings rate in many African.

When we come to challenges and prospects for establishment of stock exchange in Ethiopia different parties and scholars accomplish different studies in different time. Among them one is Professor Asrat Tessema. Tessema (2003) identifies different challenges for establishment of stock exchange including: low level of public awareness about securities markets; Lack of public confidence in share investment; Lack of institutional capacity to facilitate securities trading; The underdeveloped state of the bond (debt) market; A low level of private sector development and a low level of market orientation in the economy; Easy access to loans by wealthy and financially sophisticated Ethiopians, and probably those with a strong link to the party ruling the country; Problems with the supply and demand for securities at least initially and absence of input by the business community in the formulation of economic policy by the government. As Tessema (2003) mentions that as the country is in this way after 17 years of socialism, there is neither the tradition nor the trust in share companies; due to the historical prominence of bank financing; there is still government interference in the market; there is no mechanism in place to solicit input from the business community as a cause for the challenges stated above. In addition to this Abebe (2006) states that the current state of affairs does not make the country ready for a full-fledged stock market (the study is conducted in 2006). In addition it states that the absence of an accounting disclosure may become a challenge for the establishment of stock exchange.

On the other side Tessema (2003) states that many prospects (opportunities) for developing securities markets exist in Ethiopia. The prospects are Ethiopia has considerable unexploited resources; one of the largest potential markets in Africa;

Ethiopia's process of transition from a centrally planned to a market-oriented economic system and the process of economic liberalization underway is encouraging; The privatization efforts going on would help with the supply problems, particularly if a public offering of shares is used as the method of privatization; The existence of many profitable companies, which can potentially benefit from floating shares to the public; The existence of institutions like the country's Pension Fund, insurance companies, credit unions, etc., with large sums of money. If allowed to invest, they would boost the demand for securities; the gradual improvements of the incentive packages in the successive investment proclamations help attract new investors including Ethiopians with foreign passports; the debate going on in academics, the business community at large and the government circle is encouraging. Similarly Abebe (2006) prospects including the current scenario in share buying is a testimony of the existence of demand and supply sufficient to begin the long journey: the government has consistently maintained that the macroeconomic situation is reasonably stable and there are already some legal pronouncements, which can be reinforced a little more for a start.

2.4. Stock Exchange and Long-Term Economic Growth

In the area of stock exchange and economic growth there is still a debate between scholars in finance and economics. The debate has two extremes. The first extreme is financial market development including stock exchange development creates and accelerates economic growth (Levine, 1996; Viney, 2007; Nowbutsing and Odit, 2009; Sakhile; Nazir et al, 2010). On the other side there are scholars which supports the idea the economic growth creates a need for financial market and financial market development follows economic growth and/or the financial market development doesn't have a contribution in the economic growth of the nation (Azarmi et al, 2005; Ake and Ognaligui, 2010).

When we see the debates let's start with the first group, the scholars which supports the idea of financial market development including stock exchange development creates and accelerates economic growth. Although some analysts view stock markets in developing countries as "casinos" that have little positive impact on economic growth, recent evidence suggests that stock markets can give a big boost to economic development. Stock markets may affect economic activity through the creation of liquidity. Many profitable investments require a long-term commitment of capital, but investors are often reluctant to relinquish control of their savings for long periods. Liquid equity markets make investment less risky and more attractive because they allow savers to acquire an asset, equity, and to sell it quickly and cheaply if they need access to their savings or want to alter their portfolios. At the same time, companies enjoy permanent access to capital raised through equity issues. By facilitating longer-term, more profitable

investments, liquid markets improve the allocation of capital and enhance prospects for long-term economic growth. Further, by making investment less risky and more profitable, stock market liquidity can also lead to more investment. Put succinctly, investors will come if they can leave. The empirical evidence strongly supports the belief that greater stock market liquidity boosts, or at least precedes, economic growth. To see how, consider three measures of market liquidity, three indicators of how easy it is to buy and sell equities. These three measures are the total value of shares traded on a country's stock exchanges as a share of GDP, the value of traded shares as a percentage of total market capitalization (the value of stocks listed on the exchange) and the value-traded-ratio divided by stock price volatility. And based on these three measures of liquidity the empirical evidence shows that stock market development explains future economic growth (Levine, 1996).

In briefing the link between stock market liquidity and economic growth Levine (1996) states that multiple regression procedures suggest that stock market liquidity helps forecast economic growth even after accounting for a variety of non-financial factors that influence economic growth. After controlling for inflation, fiscal policy, political stability, education, the efficiency of the legal system, exchange rate policy, and openness to international trade, stock market liquidity is still a reliable indicator of future long-term growth.

In the same manner Viney (2007: PP 17) states that economic growth (and the benefits, such as increased employment, that flow to the community from that growth) is critically reliant on the existence of strong primary markets. It is primary market transactions that

lead to greater productive investment. Secondary markets, although not directly involved in the process of channeling funds from savers to users of funds, do encourage both savings and investment. They enhance the marketability and liquidity of primary-issue instruments and thus make them more attractive to savers.

Nowbutsing and Odit (2009) states that in principle, a well-developed stock market have a positive impact on the economic growth by increasing saving and efficiently allocate capital to productive investments, allocating capital to the corporate sector, increasing liquidity of financial assets, making global risk diversification easier for investors, promoting wiser investment decisions by saving-surplus units based on available information, forcing corporate managers to work harder for shareholders' interests, and channeling more savings to corporations. Investors are more easily persuaded to invest in common stocks, when there is little doubt on their marketability in stock exchanges. This, in turn, motivates corporations to go to public when they need more finance to invest in capital goods. Sakhile also mentions for any company to be established or expanded, financial assets need to be available. The birth and growth of companies positively affects the nation's economy. The stock exchange makes the above easier thus accelerating economic growth. In sum we can say that the development of stock markets is highly important in sustaining a better economic growth (Nazir et al, 2010).

Rahman and Salahuddin (2009) also reflect the same idea with different way by reviewing the literatures and present it by dividing into four. First, at the initial stages of economic development, financial markets are undeveloped and very small in their magnitude. During these stages, financial markets are primarily dominated by banks and

other similar types of financial intermediaries. There is almost no role of stock markets or, even if they exist in any form, their size is negligible. Second, when financial intermediaries expand with capital accumulation, the number of sophisticated and more tailored financial instruments increases, as do the level of sophistication and complexity of financial contracts and the flow of resources and funds accruing to the financial market. Stock markets start developing both in terms of the number of listed firms and market capitalization. Third, when the economy continues to grow, equity markets develop further as well as the banking system. Similarly, other financial intermediaries also develop. Fourth, researchers recognize the common view that the stock markets appear to develop in a non-monotonic ways. In economies where stock markets are relatively small, capital accumulation seems to be followed by a relative increase in banks' share in the financial system and in economies where the stock market has already reached a reasonable size, further development of the market causes an increase in the equity markets' share. In other words, evidence shows that the equity/debt ratio first decreases and, only with further development of the stock market, this ratio increases. At last By employing two different models to examine the relationship between various factors and economic growth with special attention to the relationship between stock market development and economic growth both in the short run and in the long run using time series data for Pakistan for the period from 1971 to 2006 finding of their study suggest that there exist significant positive relationship between stock market development and economic growth. Baier etal (2003) also stands beside this group by summing up their finding by stating before a stock exchange opens, there is an increase in impersonal transactions and financial deepening that facilitates these trades. Once there is

sufficient liquidity, a stock market opens and higher growth ensues. This higher economic growth occurs because the exchange increases the economy's efficiency, either the informational efficiency, the efficiency of physical capital's allocation, both, or in some other way. And based on their findings they conclude countries grow faster relative to the rest of the world after a stock exchange opens.

When we see the second group of the debate, they said the financial development doesn't have a positive impact on the economic growth or the financial development is coming from the economic growth. Azarmi et al (2005) bring in their paper conducted in the stock exchange of India and their finding suggests that stock market development in India is not associated with economic growth over a twenty-one year study period. And they add as their results are consistent with the assertion that the Indian stock market may be viewed as a casino that is not contributing to the economic growth of the country. In addition findings of a study conducted in one developing country (Cameroon) by Ake and Ognaligui (2010) suggest that there is no relationship between Douala stock exchange (a stock exchange in Cameroon) and economic growth for Cameroon.

The results indicated that stock market is not influencing Cameroonian economic growth because Granger-Causality estimation doesn't confirm the bi-directional causality between stock market development and economic growth in the case of Cameroon. They add as their results do not match with the other author's findings who confirm a positive relationship between stock market development and economic growth. They try to explain their results by the low value of market liquidity which means that the Douala Stock Exchange is not active enough as to boost Cameroonian economy. If the aim of the

creation of the Douala Stock Exchange was to attract investors and help company to increase easily their capital, we can conclude that the purpose is far from to be reached. And they suggest to the Cameroonian government to encourage companies to introduce their capital in the Douala Stock Exchange and also to introduce the national companies instead of other forms of privatization in the hands of foreign investors.

As the variance decomposition showed, if the Cameroonian government increase market capitalization by introducing public companies to Douala Stock Exchange, the Cameroonian economy will also grow up. In order to encourage companies to introduce their capital in the DSX, they think that policy makers should remove impediments to stock markets, such as tax, legal, and regulatory barriers. One of the reasons Cameroon has a small stock market is low saving rate. To promote stock market development, government should encourage savings and investment by appropriate policies. Therefore, equal importance must be given to both, bank-based financial sector and market-based stock market of the economy.

The above listed scholars and studies are some of the scholars conducting a study in this area and some of the study done in the area too. So by taking these we can see the debate between the scholars in the area of relations between financial markets including stock market and economic growth. And from these findings we can understand that even though in some developing countries and emerging markets there is no relation between the financial market development and economic growth, as the efficiency of the market increases it will increase its benefits and it contribute something to the nation’s economy.

2.5. Stock Exchange as an Alternate Source of Finance

The stock exchange provides companies with the facility to raise capital for expansion through selling shares to the investing public. When people draw their savings and invest in shares, it leads to a more rational allocation of resources because funds, which could have been consumed, or kept in idle deposits with banks, are mobilized and redirected to promote business activity with benefits for several economic sectors such as agriculture, commerce and industry, resulting in a stronger economic growth and higher productivity levels and firms. Companies view acquisitions as an opportunity to expand product lines, increase distribution channels, increase its market share, or acquire other necessary business assets. A takeover bid or a merger agreement through the stock market is one of the simplest and most common ways for a company to grow by acquisition or fusion (Simelane Sakhile).

Nowbutsing and Odit (2009) states that, to show the role of stock exchange as a source of financing, debt finance is likely to be unavailable in many countries, particularly in developing countries, where bank loans may be limited to a selected group of companies and individual investors. In addition Abebe (2006) adds that one of the key advantages is that stock exchanges are efficient medium for raising resources and channeling savings from the public by way of issuing equity/debt capital by stock companies listed on the stock exchanges. Generally, finance literature suggests that stock markets serve important functions even in those economies in which a well developed banking sector already exists, the reason being that equity and debt financing are in general not perfect substitutes. Equity financing has a key role in the management of conflict of interest that

may arise between different stakeholders in the firm. Therefore one of the major functions or roles of an established stock exchange will be becoming an alternate source of capital.

CHAPTER THREE

DATA PRESENTATION AND ANALYSIS

3.1. General information of the respondents

In this section the researcher tries to include age, sex, educational level and current job of the respondents. The following table depicts the age, sex and educational level of the respondents.

Table 1 Age, sex and educational level of respondents

Description		**No of respondents**	**percentage**
Age	Below 20 years	0	0%
	21-30 years	12	13.95%
	31-40 years	51	59.30%
	41-50 years	16	18.61%
	51-60 years	5	5.81%
	Above 61 years	2	2.33%
	Total	86	100%
sex	Male	81	94.19%
	Female	5	5.81%
	Total	86	100%
Educational level	Illiterate	0	0%
	1-4 grade	4	4.65%
	5-12 grade	61	70.93%
	Certificate and above	21	24.42%
	Total	86	100%

As we can see from the above table there is no respondent in the age category of below 20 years, 13.95 % (12) are 21-30 years, 59.30% (51) are 31-40 years, 18.61% (16) are 41-50 years, 5.81% (5) are 51-60 years and the remaining 2.33% (2) respondents are above 61 years old. If we see the gender composition of the respondents 94.19% (81) are male

and the remaining 5.81% (5) are female. And if we come to the educational level there is no respondent who are illiterate, 4.65% (4) of them are 1-4 grade, 70.93% (61) of them are 5-12 grade and the remaining 24.42% (21) have certificate and above. So from those data we can say that in terms of age respondents in the age interval of 31-40, in terms of sex male and in terms of educational level 5-12 grad have a majority. In addition ot this the general information of the respondents includes the current job of the respondents and those respondents surveyed have a current job like trade, gold smith, NGO employee, marketing expert, Bank employee, private work, teacher, family work etc.

3.2. Challenges and prospects for the establishment of a stock exchange in Ethiopia

In order to see the Challenges and prospects for the establishment of a stock exchange, as it is presented in the methodology part, the researcher tries to collect data from share holders, share companies, national bank officials and academicians. Before coming to Challenges and prospects let's see some facts about the share holders.

Table 2 How long they are a share holder

How long you are a stock holder?	No of respondents	Percentage
Less than a year	12	13.95%
1-3 years	53	61.63%
3-5 years	17	19.77%
More than five years	4	4.65%
Total	86	100%

As it is stated in the above table 61.63% (53) of the surveyed respondents becomes a share holder before 1-3 years, 19.77% (17) are in the interval of 3-5 years, and 13.95%

(12) are shareholders who bought their shares with in a year. The remaining 4.65% (4) are share holders who bought the shares before 5 years. So from this we can say that majority of the share holders are in the year interval of 1-3 years. In addition to this I tried to see the amount of shares they hold in number and in money. Here, it becomes difficult to group them in some categories because the values of shares of different share companies are different. But generally the minimum and maximum amount of share in which the share holders surveyed have are 4 and 599 in terms of number and Birr 4000 and Birr 599,000 in terms of money respectively.

When we come to the main point to see the challenges, prospects and advantages of establishing stock exchange in Ethiopia, let's first see the answer of share holders for the question "did you have an intention of selling your shares?"

Table 3 The intention of selling shares

Did you have an intention of selling your shares?	No of respondents	Percentage
Yes	48	55.81%
No	38	44.19%
Total	86	100%

So from the above table we can see that more than half (55.81%) of the surveyed respondents have an intention to sell their shares on the other hand there are share companies which faces this problem. That means as the share holders want to sell their shares first they go to the share companies. The following table shows the number of share companies which accept compliance from their share holders and how they solve it.

Table 4 Compliance of share holders to sell the shares back and the solving mechanism they use

Description	Response	No of respondents	Percentage
Is there any compliance from share holders to sell the shares back to your company?	Yes	7	70%
	No	3	30%
	Total	10	100%
If yes, how did you solve it?	By including in the contract as you don't have an obligation to buy back the shares	1	14.29%
	Assisting them to get buyers (like brokers)	7	100%
	Other	0	0%
	Total	7	100%*

* As the respondents have an option to select more than one the percentage may exceed 100%

As it is shown in the above table 70% (7) of the share companies accepts (face) compliance from share holders to sell back shares to them and the remaining 30% (3) of the share companies didn't face such a problem yet. And out of those 7 share companies only a single company select both including in the contract as they don't have an obligation to buy back the shares and assisting them to get buyers to solve the compliance from the share holders. The remaining answers that question by selecting assisting them to get buyers (like brokers). In addition to this actually they can not redeem their shares back as this is not permitted by the regulation but they don't use this alternative to solve the compliance as they said they don't have a problem to get buyers for their shares they will assist the share holders to get the buyer.

If we come back to share holders, as it is stated above 48 of the respondents have an intention of selling their shares. If so how many of them have an experience of selling their shares.

Table 5 Experience of selling a share

Did you have an experience of selling a share?	No of respondents	Percentage
Yes	16	33.33%
No	32	66.67%
Total	48	100%

In the above table it is clearly shown that 66.67% (32) of the respondents who answered this question doesn't have an experience of selling a share but the remaining 33.33% (16) of the share holders do have the experience of selling shares. So the proceeding question was where did you sold it? And the answer seems like the following.

Table 6 where the share holders sell the shares?

Where did you sell it?	No of respondents	Percentage
To relatives	0	0%
To friends	0	0%
To brokers	7	43.75%
Directly to the buyer	9	56.25%
Other	0	0%
Total	16	100%

As any one can see from the above table out of the 16 respondents who have an experience to sell shares 43.75% (7) were sold their shares to the brokers and the remaining 56.25% (9) sold it directly to the buyer. Though they sell their shares, they face different problems including difficulty to get the buyer easily, unfair pricing and higher commission and the process was difficult for some of them. When we see this in figurative manner it looks like the following.

Table 7 The difficulty in the process of selling shares and the problems encountered

Question	Response	No of respondents	Percentage
Was it easy to sell your shares?	Yes	4	25%
	No	12	75%
	Total	16	100%
What were the problems you encountered while selling your share?	Difficulty to get the buyer easily	12	100%
	Unfair pricing	11	91.67%
	Higher commission	5	41.67%
	Other	0	0%
	Total	12	100%

To make the above table clear out of the 16 respondents who have an experience of selling shares only 25 % (4) of them sold their shares easily and the remaining 75% (12) face different difficulties (problems) and it was difficult to them to sell their shares. Among the 12 respondents 100 % (12) face a difficulty to get the buyer easily, 91.67% (11) of them believe that they get unfair price and 4.67% (5) of them asked for higher commission.

If we come back to share companies and their problems in relation to their selling and buying of shares the first point is discussed above, i.e., compliance from shareholders and solving mechanism and when we come to the second issue, it is shares of other companies in which they hold and related issues. So to see this point, first let's see the number of share companies which hold shares of other companies.

Table 8 Share companies which hold shares of another share companies

Did your company hold shares of another share companies?	No of respondents	Percentage
Yes	6	60%
No	4	40%
Total	10	100%

From the above table we can see that more than half (60%) of the share companies under study hold shares of another share companies and the remaining 40% (4) of the share companies didn't hold shares of another share companies. From this one can understand that majority of the share companies hold shares of other companies. In continuation to this

Let's see the share companies, which hold shares of other share companies, answer for the question did your company think of selling back the shares?

Table 9 Intention of the share companies to sell back the shares of other share companies they hold

Did your company think of selling back the shares?	No of respondents	Percentage
Yes	1	16.67%
No	5	83.33%
Total	6	100%

As it is depicted in the above table, 83.33% (5) of the share companies which answered this question reflect that their company didn't think selling back the shares of another share companies it hold. And a single company (if we write this in terms of percentage it is 16.67%) thinks of selling back the shares of another companies and it did this. But one surprising thing, it may be only for me, is that this share company sell shares of another share company to its own share holders and they believe that they sold it at fair price.

3.3. Awareness of the stake holders

It is known that to establish a stock exchange it is necessary first to create awareness. So before trying to answer the question of establishment of stock exchange in Ethiopia, it is

necessary to see the awareness of the shareholders and the share companies towards stock exchange because it is not possible to get an answer to the question in relation to the timing of the establishment of a stock exchange if they don't have a knowledge about the stock exchange. As Professor Asrat Tessema (2003) states that there is a low level of public awareness about securities markets in Ethiopia and the degree of awareness by potential investors of investments in stocks and bonds affects demand for securities. As it is conducted in the year 2003, which is 8 years ago, it is necessary to see the current awareness of the stake holders. So let us see the awareness of the share holders and then the awareness of the share companies.

Table 10 Awareness of share holders towards stock exchange

Do you have knowledge of stock exchange before?	**No of respondents**	**Percentage**
Yes	31	36.05%
No	55	63.95%
Total	86	100%

As we can observe from the above table 63.95% (55) of the respondents reflect that they do not have knowledge of stock exchange before and only 36.05% (31) of the respondents have knowledge of stock exchange. So from this figure can understand that more than half of the respondents do not have knowledge of stock exchange and this implies that there is a problem of awareness in the shareholders. And when we come to the share companies 100% (10) of the respondents do have knowledge of stock exchange and there is no problem of awareness around the share companies and at least the respective managers do have knowledge of stock exchange. Here, next to the awareness

question, I forward a question whether they think of establishing stock exchange in our country and the following table shows the response of the share holders**.**

Table 11 Responses of the shareholders towards the establishment of stock exchange in Ethiopia

Do you think of establishing a stock exchange in our country?	**No of respondents**	**Percentage**
Yes	28	32.56%
No	58	67.44%
Total	86	100%

From the above table one can observe that 67.44% (58) of the share holders surveyed reflects that they did not think of establishing stock exchange in our country and the remaining 32.56% (28) of the respondents, even less than the respondents who have the knowledge of stock exchange, depicts that they think of establishing stock exchange.

3.4. Timing of the establishment of the stock exchange

As it is presented in the literature part of this paper, different scholars suggests that stock exchange have to be started for different advantages. As Abebe Yitayew (2006) states that "…currently share trading activity can be started; and this can be operated with minimum difficulty and the same will gradually evolve itself into a stock exchange…" If we come to the results of this study, I forward this question to different parties including share holders, share companies, NBE officials and academicians and let's see their response one by one by starting from the response of the share holders.

Table 12 The right time to establish the stock exchange in Ethiopia by share holders

Is it a right time to establish it now?	No of respondents	Percentage
Yes	19	67.86%
No	9	32.14%
Total	28	100%

From the above table one can observe that 67.86% (19) of share holders who have the knowledge of stock exchange respond that this is the right time for the establishment of stock exchange in our country and the remaining 32.14% (9) of those share holders who do have the knowledge of stock exchange reflect that this is not the time for establishment of stock exchange due to different reasons and those reasons will be presented in the next sections. In the same manner I presented this question for the share companies and their response will be presented in the following table.

Table 13 The right time to establish the stock exchange in Ethiopia by respective managers in the share companies

Do you think that this is the time for establishment of stock exchange in Ethiopia?	No of respondents	Percentage
Yes	9	90%
No	1	10%
Total	10	100%

So from this table one can understand that 90% (9) of the share companies believe that this is the time for the establishment of stock exchange in Ethiopia and a respondent from a single share company, this respondent covers 10% of the surveyed respondent, answer that this is not the time for the establishment of stock exchange in our country.

In the same manner I forward the same question for the NBE official and the academicians. The NBE official reflects that it is true that this is the time for the

establishment of not only stock exchange but also an overall capital market including bond market, stock exchange, strengthening the money market and so on. For this purpose the bank formulate a committee composed of foreign and its own experts to conduct study on this area. The official adds that "still now we don't have anything to publicize but the work is in progress and additionally the government is not 100% ready to institutionalize the capital market in general and the stock exchange in particular like that of commodity exchange and the governments commitment to establish the stock exchange is not clear". On the other hand the academicians believe that this is the time for the establishment of stock exchange. Here they add that even though they agree on establishing stock exchange at this time, this doesn't mean that the pre-conditions for the establishing stock exchange are not fully available but this is the time for starting institutionalizing the stock exchange.

3.5. Ownership structure of the stock exchange to be established

As it is presented in the previous section crucial number of respondents agrees on establishing stock exchange at this time. While establishing a stock exchange one issue have to be addressed, i.e. ownership structure and I extend this question to the shareholders who agrees on the establishment of the stock exchange in our country at this time and their response will be presented in the following table.

Table 14 Ownership structure of the stock exchange to be established

What ownership structure you think is better for the expected stock exchange to be established in Ethiopia?	No of respondents	percentage
Governmental	21	75%
Privately owned	2	7.14%
Establish as a share company	4	14.29%
Other	1	3.57%
Total	28	100%

As we can see from the above table 75% (21) of the total 28 respondents, who reflect on the question, think that the stock exchange to be established have to be governmentally owned. On the other extreme 7.14% (2) of them suggest private ownership structure, 14.29% (4) of the respondents recommend to establish as a share company and 3.57% (1) select other. This individual suggests that the stock exchange have to be established as not-for-profit organization. From this we can understand that majority of the respondents recommend governmental ownership structure as a better ownership structure, if the stock exchange is to be established.

3.6. Advantages of establishing stock exchange in Ethiopia

Asrat Tessema (2003) in his article entitled "Prospects and Challenges for Developing Securities Markets in Ethiopia: An Analytical Review" mention enhanced savings mobilization, help in resource allocation, promote efficient financial system, help term transformation and improve capital structure, allow de-concentration of ownership, improve accounting and auditing standards, provide effective tools for monetary and fiscal policy and help privatization efforts as an advantages or benefits of establishing security market (stock exchange). Abebe yitayew (2006) also states that establishment of

stock exchange contributes to economic growth, it encourages investment, protect investors by upholding rules and regulations, help traders buy and sell quickly and efficiently and so on. If we come to this study I forward a question in relation to this issue to the shareholders who do have a believe of this time is the right time for the establishment of stock exchange and the following table shows their response.

Table 15 Advantages of establishing stock exchange by respective managers in the share companies

What do you think the advantages of establishing a stock exchange in our country at this time?	**No of respondents**	**percentage**
It contributes to the economic growth of the country	7	77.78%
It helps to easily sell and buy shares	8	88.89%
It serve as an alternate source of finance	4	44.44%
It helps to attract more domestic and foreign investors	4	44.44%
Promote efficient financial system	3	33.33%
Allow de-concentration of ownership	3	33.33%
Improve accounting and auditing standards	2	22.22%
Provide effective tools for monetary and fiscal policy	4	44.44%
Help privatization efforts by the government	2	22.22%
Other	0	0%
Total	9	100%

From those respondents 77.78% (7) respond that it contributes to the economic growth of the country; 88.89% (8) select it helps to easily sell and buy shares; 44.44% (4) of them said it serve as an alternate source of finance; again 44.44% (4) reflects that it helps to attract more domestic and foreign investors; 33.33% (3) respond that promote efficient financial system; 33.33% (3) again selects allow de-concentration of ownership; 22.22% (2) select improve accounting and auditing standards; 44.44% (4) respond provide effective tools for monetary and fiscal policy and 22.22%(2) selects help privatization efforts by the government. This implies that most of the respective managers in the share

companies believe that establishment of stock exchange in our country at this time helps to easily sell and buy shares and it contributes to the economic growth of the country. And some of these managers also selects it serve as an alternate source of finance, it helps to attract more domestic and foreign investors, provide effective tools for monetary and fiscal policy, promote efficient financial system, allow de-concentration of ownership, improve accounting and auditing standards and help privatization efforts by the government.

3.7. Reasons for not establishing stock exchange at this time by the shareholders

As it is presented previously out of the 28 share holders who think of establishing stock exchange 9 respond that this is not the right time for the establishment of the stock exchange. Like wise a single share company's respective manager reflect the same thing. The following table shows the reasons for the delay of the establishment of the stock exchange by the share holders.

Table 16 Reasons for not establishing a stock exchange at this time by the shareholders

What are the reasons for not establishing a stock exchange in Ethiopia at this time?	No of respondents	percentage
The available institutional infrastructures are not adequate	9	100%
The government is not ready to establish a stock exchange	8	88.89%
The policy environment is not conducive	7	77.78%
The political and economic conditions of the country is not conducive	7	77.78%
The current demand and supply of shares are not enough to establish a stock exchange	2	22.22%
There are other priorities for the country	4	44.44%
It is not that much necessary for our country	0	0%
It is better first to create awareness in the society	6	66.67%
Other	0	0%
Total	9	100%

As it can be seen from the above table among the share holders who respond on this question 100% (9) select the available institutional infrastructures are not adequate as a reason for the delay. 88.89% (8) of them again tick on the government is not ready to establish a stock exchange as an additional reason; 77.78% (7) of the respondents select the policy environment is not conducive; 77.78 % (7) respond the political and economic conditions of the country is not conducive; 22.22% (2) said the current demand and supply of shares are not enough to establish a stock exchange; 44.44% (4) take there are other priorities for the country as a reason, and 66.67% (6) believes in creating awareness in the society first. From this we can understand that majority of the respondents who answer this question agree on the available institutional infrastructures are not adequate, the government is not ready to establish a stock exchange, the policy environment is not conducive, the political and economic conditions of the country is not conducive and it is better first to create awareness in the society as a major reasons for opposing the establishment of stock exchange at this time. As it is stated above a single share company's respondent reflects on this question and mention all the above reasons too. Here, those respondents who reflects that this is the right time to establish stock exchange also agrees on these facts but they believe that through time those problems and shortcomings can be solved and we can start at the minimum level.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATION

4.1. Summary

Stock exchange has a specified place and is also a formal organization which is made up of members, where financial assets including the common stock, debt securities and so on are bought and sold. There is a debate between scholars in the area of relations between financial markets, including stock market, and economic growth. And in some developing countries and emerging markets there is no relation between the financial market development and economic growth. And also some other empirical evidences show that stock exchange spur economic growth.

Having these, the findings presented in the third chapter can be summarized as follows:

- Then number of share holders is increasing from time to time as the number of share companies is increasing. As it is presented in table two 61.63% (53) of the surveyed respondents becomes a share holder before 1-3 years, 19.77% (17) are in the interval of 3-5 years.
- All of the respective mangers in the share companies have knowledge in relation to the stock exchange but a number of share holders do not have knowledge about stock exchange.

- As it is presented in table 12 67.86% (19) of share holders, as it is presented in table 13 90% (9) of the share companies, and the national bank official and the academicians believe that this is the right time for the establishment of the stock exchange.
- Majority of the respondents propose that the stock exchange to be established have to be governmentally owned and others suggest establishing as privately owned, as a share company and as not-for-profit organization.
- There are a lot of share holders who do have a need to sell their shares and also there are a lot of share holders who do face a problem while selling their shares. Those problems are difficulty to get the buyer easily, unfair pricing and higher commission.
- Majority of the share companies accept compliance from the shareholders to sell back their shares to the share companies. Actually the share companies do not have a mandate to buy back (re-deem) the shares, but they tries to settle this problem mainly by assisting them to get buyers and including in the contract as they don't have an obligation to buy back the shares.
- There are a number of share companies hold shares of another share companies.
- Majority of the respondents respond that establishment of stock exchange in our country will have the following advantages:

    - It contributes to the economic growth of the country
    - It helps to easily sell and buy shares;
    - It serve as an alternate source of finance;
    - It helps to attract more domestic and foreign investors;

- Promote efficient financial system; allow de-concentration of ownership;
- Improve accounting and auditing standards;
- Provide effective tools for monetary and fiscal policy and
- Help privatization efforts by the government.

- On the other hand some of the respondents reflect that this is not the right time to establish a stock exchange in our country because the available institutional infrastructures are not adequate; the government is not ready to establish a stock exchange; the policy environment is not conducive; the political and economic conditions of the country is not conducive and creating awareness in the society have to come first. The severity of those problems may not be equal and sensed equally by all individuals.
- Government is not fully initiated to institutionalize the capital market in general and the stock exchange in particular like that of commodity exchange and the government's commitment to establish the stock exchange is not clear.

4.2. Conclusion

In this part based on the data analyzed in the previous chapter I tried to conclude on the main issues.

- The supply and demand of shares are increasing from time to time.
- There is a problem of awareness in the shareholders.
- Selling back a share is some what difficult for the share holders as there is a difficulty to get the buyer easily; they do not get fair price and they are asked for higher commission by the brokers.
- Accepting compliance from the shareholders to sell back their shares to the share companies is a common phenomenon in the share companies business. As the share companies are not obligated to re-deem the shares, they try to help their share holders assisting to get buyers.
- Establishing a stock exchange at this time has a great advantage for the sector and for the economy at a whole.
- The pre-conditions for the establishment of the stock exchange are not fully fulfilled. But the time is now to start work to establish a stock exchange and from time to time it can be improved.
- It is difficult to predict the time in which the stock exchange will be established as the stake holders are not fully involved.
- Government has given little attention to the establishment of stock exchange.

Based on the above conclusions drawn from the data presentation and analysis part, the researcher takes a position of this is the right time to at least start work for the establishment of a stock exchange and the government have to take the initiation, control and follow-up role and the stock exchange have to be governmentally owned..

4.3. Recommendation

As the main purpose of this study is to answer the question "should Ethiopia consider establishing of a stock exchange?" my first recommendation have to be answering this question and my answer is absolutely YES. This means all the stake holders around the share business have to be more concerned to establish a stock exchange in our country at this time. Those stake holders are the share companies' managers, shareholders, respective government officials (the facilitating government organ for the establishment of the stock exchange) and so on. In addition to this I want to forward the following constructive recommendations for the respective parties.

For the government (policy makers)

- The government has to see again its attitude towards stock exchange and the respective government organ, National Bank of Ethiopia, have to do more on this area. As the Ethiopian economy is growing and likewise the share companies are increasing, the government has to give more attention to the establishment of stock exchange.
- In parallel to the establishment of the stock exchange the facilitating organ (more or less the National Bank of Ethiopia) have to give attention to creating awareness as majority of the share holders have no knowledge of stock exchange.

To share companies

- They have to do to pressurize the government to establish and institutionalize the

stock exchange at this time as it is difficult to predict the time of the establishment of the stock exchange because the government is not fully committed to institutionalize the stock exchange.

- They have to create awareness on the society using different communication Medias.

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Appendixes

Appendix A

Addis Ababa University

School of Business and Public Administration

MBA Program

Questionnaire for individual share holders

This questionnaire is developed to collect data from individual share holders of share companies. By knowing that this is for the sake of educational purpose and it may contribute something to the improvement of the financial system of the country, please, fill all the necessary data.

Thanks in advance!!!

Instructions:

- You can use "√" sign to mark
- You can tike more than ones if it is necessary
- There is no need to write your name and your share companies name

I. General Data

Age: ☐ Below 20 years ☐ 21-30 years ☐ 31-40 years

☐ 41-50 years ☐ 51-60 years ☐ above 61 years

Sex: ☐ Male ☐ Female

Your educational level:

☐ Illiterate ☐ 1-4 grade ☐ 5-12 grade ☐ certificate and above

Your current job: _____

1. How long you are a stock holder?

   ☐ Less than a year ☐ 1-3 years ☐ 3-5 years ☐ More than 5years

2. How many stocks (shares) do you hold?

   In number: _____

   In Birr: _____

3. Did you have an intention of selling your shares?

   ☐ Yes ☐ No

If your answer for Q 3 is "No", please skip to Q 4-8

4. If "Yes" for Q 3, did you have an experience of selling a share?

☐ Yes ☐ No

5. If "Yes" for Q 4, where did you sold it?

☐ To relatives

☐ To friends

☐ To brokers

☐ Directly to the buyer

☐ Other

If other, specify: _____

_____

_____

_____.

6. If "Yes" for Q 4 again, was it easy to sell your share?

☐ Yes ☐ No

7. If “Yes” for Q 4 again, did you get fair price?

☐ Yes ☐ No

8. If “No” for Q 6, what were the problems you encountered while selling your share?

☐ Difficulty to get the buyer easily

☐ Unfair pricing

☐ Higher commission

☐ Other

If other, specify: _____

_____

_____

_____.

9. Do you have knowledge of stock exchange before?

☐ Yes ☐ No

10. Do you think of establishing a stock exchange in our country?

☐ Yes ☐ No

If your answer for Q 10 is "No", please skip Q 11-12

11. If "Yes" for Q 10, is it the right time to establish it now?

☐ Yes ☐ No

12. If "Yes" for Q 10 again, what ownership structure you think better for the expected stock exchange to be established in Ethiopia?

☐ Governmental ☐ privately owned

☐ Establish as a share company ☐ other

If other, specify: _____

_____

_____.

13. If "No" for Q 11, what are the reasons for not establishing a stock exchange in Ethiopia at this time?

☐ The available institutional infrastructures are not adequate

☐ The government is not ready to establish a stock exchange

☐ The policy environment is not conducive

☐ 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

☐ It is better first to create awareness in the society

☐ Other

If other, specify: _____

_____

_____.

14. If “No” for Q 11 again, how can the problems in selling a share be solved?

_____

_____

_____

_____.

15. If you have any thing to say about stock exchange other than the above listed issues, please don’t hesitate.

_____

_____

_____

_____.

16. What recommendations you forward to solve the above listed problems?

_____

_____

_____

_____.

Thanks again!!!!

Appendix B

Addis Ababa University

School Of Business and Public Administration

MBA Program

Questionnaire for respective managers of share companies

This questionnaire is developed to collect data from financial managers of share companies. By knowing that this is for the sake of educational purpose and it may contribute something to the improvement of the financial system of the country, please, fill all the necessary data.

Thanks in advance!!!!

Instructions:

- You can use "√" sign to mark
- You can tike more than ones if it is necessary
- There is no need to write your name and your share companies name

1. Is there any compliance from shareholders to sell the shares back to your company?

☐ Yes ☐ No

2. If “Yes” for Q 1, how did you solve the compliance?

☐ By including in the contract as you don’t have an obligation to buy back the shares

☐ Assisting them to get buyers (like brokers)

☐ Other

If other, specify: _____

_____

_____

_____.

3. Did your company hold shares of another share companies?

☐ Yes ☐ No

If your answer for Q 3 is “No”, please skip Q 4-7

4. If “Yes” for Q 3, did your company think of selling back the shares?

☐ Yes ☐ No

5. If “Yes” for Q4, did your company sell shares it holds?

☐ Yes ☐ No

6. If “Yes” for Q5, to whom the shares were sold?

☐ Selling back to the company

☐ To share holders of your company

☐ Selling to brokers or through brokers

☐ Other

If other, specify: _____

_____

_____

_____.

7. If “Yes” for Q 5 again, did your company sell the shares it holds at fair price?

☐ Yes ☐ No

8. Do you have knowledge of stock exchange?

Yes ☐ No ☐

9. Do you think that this is the time for establishment of stock exchange in Ethiopia?

Yes ☐ No ☐

10. If "Yes" for Q 9, what do you think the advantages of establishing a stock exchange in our country at this time?

☐ It contributes to the economic growth of the country

☐ It helps to easily sell and buy shares

☐ It serve as an alternate source of finance

☐ It helps to attract more domestic and foreign investors

☐ Promote efficient financial system

☐ Allow de-concentration of ownership

☐ Improve accounting and auditing standards

☐ Provide effective tools for monetary and fiscal policy

☐ Help privatization efforts by the government

☐ Other

If other, specify: _____

_____

_____

_____

_____.

11. If “No” for Q 9, what are the reasons for not establishing stock exchange at this time?

☐ The available institutional infrastructures are not adequate

☐ The government is not ready to establish a stock exchange

☐ The policy environment is not conducive

☐ The political and economic conditions of the country is not conducive

☐ The current demand and supply of stocks (shares) are not enough to establish a stock exchange

☐ There are another priorities for the country

☐ It is not that much necessary for our country

☐ It is better first to create awareness in the society

☐ Other

If other, please specify: _____

_____

_____

_____

_____.

12. If you have any thing to say about establishment of stock exchange or stock market other than the above listed issues?

_____

_____

_____

_____

_____.

13. What recommendations you forward to solve the above listed problems?

_____

_____

_____

_____

_____.

Thanks again!!!!

Appendix C

Guideline questions for unstructured interviews to be conducted with NBE officials

1. What are the efforts done by the government to establish a stock exchange?
2. At what level the study on the establishment of stock exchange or capital market reaches, if any?
3. What do you think about the establishment of stock exchange in Ethiopia? Is this the right time to establish it?

Appendix D

Guideline questions for unstructured interviews to be conducted with academicians

1. What do you think about the establishment of stock exchange in Ethiopia? Is this the right time to establish it?
2. How do you see the studies conducted in the area of stock exchange in Ethiopia?
3. As an academician what do you do in this are?

Appendix E

አዲስ አበባ ዩኒቨርሲቲ

የቢዝነስና ህዝብ አስተዳደር ት/ቤት

ማስተርስ ኦፍ ቢዝነስ አድሚኒስትሬሽን

ለአክስዮን ባለድርሻ የተዘጋጀ መጠይቅ

ይህ መጠይቅ የአክስዮን ባለቤት ከሆኑ ግለሰቦች መረጃ ለመሰብሰብ የተዘጋጀ ነው፡ መረጃዎቹ ለትምህርት ዓላማ የሚውሉ መሆናቸውና ለሀገሪቱ የፋይናንስ ሴክተር መሻሻል የራሱ የሆነ ሚና ሊኖረው እንደሚችል በመገንዘብ ያለምንም ስጋት ላስፈላጊዉን መረጃ እንዲሞልሉኝ በትህትና እጠይቃለሁ፡

በቅድሚያ አመሰግናለሁ!!!

<u>አቅጣጫ</u>

- **የ “√” ምልክት መጠቀም ይቻላል፡**
- **አስፈላጊ ሁኖ ከተገኘ ከአንድ በላይ መምረጥ ይቻላል፡**
- **የእርስዎና የአክስዮን ማህበርዎ ስም መፃፍ አያስፈልግም፡**

I. **አጠቃላይ መረጃ**

ዕድሜ: ☐ **ከ** 20 **ዓመት በታች** ☐ 21-30 **ዓመት** ☐ 31-40 **ዓመት**

☐ 41-50 **ዓመት** ☐ 51-60 **ዓመት** ☐ **ከ** 61 **ዓመት በላይ**

ፆታ: ☐ **ወንድ** ☐ **ሴት**

የትምህርት ደረጃ:

☐ **ያልተማረ** ☐ 1-4 **ክፍል** ☐ 5-12 **ክፍል** ☐ **ሰርቲፊኬት እና ከዛ በላይ**

የተሰማሩበት የስራ መስክ: _____

1. **የአክስዮን ድርሻ ባለቤት ከሆኑ ስንት ግዜ ሆንዎት?**

   ☐ **ከአንድ ዓመት በታች** ☐1-3 **ዓመት** ☐3-5 **ዓመት** ☐**ከ**5 **ዓመት በላይ**

2. **የምን ያህል የአክስዮን ድርሻ ባለቤት ነዎት?**

   በቁጥር: _____

   በገንዘብ: _____

3. **የአክስዮን ድርሻዎ ለመሸጥ አስበው ያውቃሉ?**

   ☐**አዎ** ☐**አላውቅም**

ለ ቁ.3 ጥያቄ መልስዎ “አላውቅም” ከሆነ ጥያቄ ቁ.4-8 ይለፉት

4. **ለ ቁ.3 ጥያቄ መልስዎ “አዎ” ከሆነ ሸጠው ያውቃሉ?**

   ☐ **አዎ** ☐ **አላውቅም**

5. **ለ ቁ.4 ጥያቄ መልስዎ “አዎ” ከሆነ ለማን ነው የሸጡት?**

   ☐**ለቅርብ ዘመድ** ☐**ለጓደኛዎ** ☐**ለደላሎች** ☐**ለበቀጥታ ለገዢ** ☐**ሌላ**

   መልስዎ “ሌላ” ከሆነ ያብራርሉኝ:

   _____

   _____

   _____

   _____

   _____.

6. **አሁንም ለ ቁ.4 ጥያቄ መልስዎ “አዎ” ከሆነ የመሸጥ ሂደቱ ቀላል ነበር?**

   ☐ **አዎ** ☐**አይደለም**

7. **አሁንም ለ ቁ.4 ጥያቄ መልስዎ “አዎ” ከሆነ በተመጣጣኝ ዋጋ ነው የሸጡት?**

☐ አዎ ☐አይደለም

8. ለ ቁ.6 ጥያቄ መልስዎ “አይደለም” ከሆነ የአክስዮን ድርሻዎን ሲሸጡ ያጋጠምዎት ችግሮች ምን ምን ናቸው?

☐ ገዢን በቀላሉ አለማግኘት

☐ ተመጣጣኝ ያልሆነ ዋጋ

☐ ከፍተኛ የደላላ ክፍያ

☐ ሌላ

መልስዎ “ሌላ” ከሆነ ያብራርሉኝ:

_____

_____

_____

_____

_____.

9. ስለ አክስዮን ገበያ (stock exchange) እውቀት አለዎት?

☐ አዎ ☐ አላውቅም

10. የአክስዮን ገበያ (stock exchange) በአገራችን ስለመቋቋም አስበው ያውቃሉ?

☐ አዎ ☐ አላውቅም

ለ ቁ.10 ጥያቄ መልስዎ "አላውቅም" ከሆነ ጥያቄ ቁ.11 እና12 ይለፉት

11. ለ ቁ.10 ጥያቄ መልስዎ "አዎ" ከሆነ አሁን ለመቋቋም ትክክለኛ ግዜው ነው?

☐ አዎ ☐ አይደለም

12. አሁንም ለ ቁ.10 ጥያቄ መልስዎ "አዎ" ከሆነ በኢትዮጵያ ለሚቋቋም የአክስዮን ገበያ ባለቤትነት በምን መልክ ቢሆን የተሻለ ነው ይላሉ?

☐ በመንግስት ቢመራ

☐ በባለሃበቶች ቢመራ

☐ እንደ አክስዮን ማህበር እንዲቋቋም

☐ ሌላ

መልስዎ “ሌላ” ከሆነ ያብራርሉኝ:

_____

_____

_____

_____

_____.

ለ ቁ.11 ጥያቄ መልስዎ “አዎ” ከሆነ ጥያቄ ቁ.13 እና 14 ይለፉት

13. ለ ቁ.11 ጥያቄ መልስዎ “አይደለም” ከሆነ በአሁኑ ግዜ በኢትዮጵያ የአክስዮን ገበያ እንዳይቋቋም እንደምክንያት የሚጠቀሱ ምንድን ናቸው?

☐ ያለው የመሰረተ-ልማት አውታር በቂ አለመሆን

☐ መንግስት የአክስዮን ገበያው ለመቋቋም ዝግጁ አለመሆኑ

☐ በፖሊሲ አካባቢ ያሉ ሁኔታዎች ምቹ አለመሆናቸው

☐ የአገሪቱ ፖለቲካዊና ኢኮኖሚያዊ ሁኔታዎች ምቹ አለመሆን

☐ በአሁኑ ግዜ ያለው የአክስዮን ድርሻ አቅርቦት እና ፍላጎት የአክስዮን ገበያው ለመቋቋም በቂ አለመሆን

☐ ቅድሚያ የሚሰጣቸው ሌሎች ነገሮች መኖራቸው

☐ ለአገሪቱ ያን ያህል አስፈላጊ አለመሆኑ

☐ በመጀመርያ ግንዛቤ የመፍጠር ስራ መሰራት አለበት

☐ ሌላ

መልስዎ "ሌላ" ከሆነ ያብራርሉኝ:

_____

_____

_____

_____.

14. አሁንም ለ ቁ.11 ጥያቄ መልስዎ "አይደለም" ከሆነ በአክስዮን ሽያጭ ለሚያጋጥሙ ችግሮች መፍትሄው ምንድን ነው?

_____

_____

_____

_____.

15. **ከላይ ከተጠቀሱት ውጪ ስለ አክስዮን ገበያ** (stock exchange) **ቀረ የሚሉት ካለ**:

_____

_____

_____

_____.

16. **ከላይ ለተጠቀሱት ችግሮች መፍትሄ ይሆናል ብለው የሚያስቡት ሃሳብ ካለ**:

_____

_____

_____

_____.

በድጋሚ አመሰግናለሁ!!!!