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   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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**BOOKS**

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

**CONFERENCE PAPERS**

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

**UNPUBLISHED DISSERTATIONS AND THESES**

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

**ONLINE RESOURCES**

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

**WEBSITES**

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

# IDENTIFYING OPPORTUNITIES, CHALLENGES AND INFRASTRUCTURE REQUIREMENTS FOR ESTABLISHING SECONDARY MARKETS IN ETHIOPIA

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**ABSTRACT**

*Witnessing growing primary market for equity and debt securities, Ethiopia is in dire need for secondary markets. The purpose of this study is to assess the opportunities, challenges and infrastructure requirements for the establishment of secondary market in Ethiopia. Being an exploratory qualitative study, data collection was done from interviews with higher officials of different stakeholders' organizations, and from secondary sources like official websites of financial institutions and published reports. The result of the research shows that Ethiopia should pave the way for securities markets development in the medium term as their benefits exceed costs and the country has many opportunities that can facilitate the development of such markets with a few challenges. The study also indicates the institutions and infrastructures needed for the development of organized and vibrant security market in Ethiopia, and suggests the formation of a high-level committee comprising representatives of major stakeholders. Such committee is recommended to share experiences from developed, emerging and least developed countries in order to establish an apex regulatory authority and develop comprehensive legislations on companies and securities.*

## KEYWORDS

Secondary Market, Ethiopia, Opportunities and Challenges, Infrastructure Requirements.

## INTRODUCTION

Financial Markets channel savings to those individuals and institutions that need more funds for spending than that are provided by their current incomes. The financial system consists of many players like financial institutions, financial markets, regulators, market participants and others having stake on it. Money and Capital Markets operating within the financial system make possible the exchange of current income for future income and the transformation of savings into investment which result in increased production, employment, income, and living standards. (Rose, 2001) The size of the world stock market was estimated at about $36.6 trillion at the beginning of October 2008. (seekingalpha.com).The total world derivatives market has been estimated at about $791 trillion face or nominal value, 11 times the size of the entire world economy (BIS, 2008).

The largest stock market in the United States, by market capitalization, is the New York Stock Exchange (NYSE). In Canada, the largest stock market is the Toronto Stock Exchange. Major European examples of stock exchanges include the Amsterdam Stock Exchange, London Stock Exchange, Paris Bourse, and the Deutsche Börse (Frankfurt Stock Exchange). In Africa, examples include Nigerian Stock Exchange, Johannesburg Stock Exchange (JSE) Limited, etc. Asian examples include the Singapore Exchange, the Tokyo Stock Exchange, the Hong Kong Stock Exchange, the Shanghai Stock Exchange, and the Bombay Stock Exchange. In Latin America, there are such exchanges as the BM&F Bovespa and the BMV.

With the exception of South Africa, African stock markets are extremely small by world standards. Together, the fifteen markets apart from South Africa accounted for only 0.2 per cent of world stock market capitalization at the end of 2003, and 2.0 per cent of emerging market capitalization. In contrast, South Africa - which accounts for 80 per cent of African stock market capitalization - is quite large by world standards. With a capitalization of US $267 billion at the end of 2003, South Africa was then the fifth largest emerging market (after China, Taiwan, South Korea and India), and the 18$^{th}$ largest equity market in the world. All African markets (including South Africa) tend to lack liquidity, however, and therefore when ranked by turnover rather than market capitalization their relative position is diminished. Five of the African markets are included in the S&P Global Emerging Market Index (S&P/IFCG) (South Africa, Egypt, Morocco, Nigeria, and Zimbabwe) although, apart from South Africa, they have very small weights in the S&P index. (Jefferis& Smith, 2005)

Ethiopia, with a population of about 81 million, is the second most populous country in Sub-Saharan Africa (SSA). One of the world's oldest civilizations, Ethiopia is also one of the world's poorest countries. At USD of 350 per year, Ethiopia's per capita income is much lower that the SSA average of USD 1,077 in the financial year 2009 (World Bank, 2011). In Ethiopia, two components of money market, viz., treasury bills market and inter-bank loan market are operating on a limited scale. On the capital market side, the primary market does exist but in rudimentary form and there is no secondary market.

## STATEMENT OF THE PROBLEM

In traditional economic theory the inputs used in a production process to create value are land, labor, capital and entrepreneurship. Capital (finance), although one of the critical input, was not given much attention by economists in the past. However, now the trend is changing and finance is given the necessary attention among researchers as a basic input for accelerating economic growth of countries. Many lease developed countries (LDCs) including Ethiopia face huge challenges in access to finance to the many economic actors.Lack of finance was one of the reasons for lower economic growth of these countries in the past. Such countries have bank denominated financial system whereby access to finance for firms, government and households is limited by banks capacity to mobilize savings and their conservative lending policies. Hence the various market participants' needs for quality financial service are not satisfied by the existing bank-dominated financial system. This calls for capital market development that can satisfy their needs with financial products tailored to their needs.

When it comes to the Ethiopian context, the country has rudimentary primary market and no secondary capital market. The Daily Monitor (cited in allafrica.com) reported that the Managing Director of New York Stockbroker Auerbach Grayson and Company said Ethiopia – the continent's second most populated and one of the biggest import markets – could boost the current high economic growth, if capital market started soon. Grayson further stated: "Ethiopia would be the most attractive investment destination in Africa, if it had a stock market and one could invest in Ethiopian businesses as cheaply as people are now investing through private transactions. Letting the private sector develop the capital market would lead to more transparency and more capital allocated to fuel Ethiopia's rapid growth."The Capital Newspaper reported (under the caption: Ethiopia's Struggle for a Capital Market)the following news item:

*For more than fifty years Ethiopia has been trying to have its own capital market and in June 2011 the Addis Ababa Chamber of Commerce and Sectoral Association (AACSA) held a workshop to help make this dream a reality. In what seems to be a fresh attempt to use its Private Sector Development (PSD) Hub to*

*bring the issue to the public's attention, capital market consultants such as RuedigerRuecker, from Sweden, spoke in June 2011 at the Intercontinental Hotel.Ruecker said that in order to create a capital market there needs to be an institutional, legal and policy framework.* (edited by researchers for brevity)

In its "Africa Market Entry Intelligence: Ethiopia Market Entry Brief",the Africa Group (which offers ground market intelligence and a unique perspective on investing and doing business across the African Continent) identified the following "Growth Hurdles" in Ethiopia:

- Access to capital remains the largest single limiting factor for Ethiopian industry. Banks only lend on collateralized based loans, and many Small and Medium Enterprises (SMEs) lack sufficient collateral to secure the type of credit they need.
- Capital markets in Ethiopia are at a nascent stage and lacking in strong legal and institutional framework. The treasury bills market is the only actively functioning market.

There had been a few studies focusing on the development of securities markets in Ethiopia in the last 15 years with Ruecker and Shiferaw (2011) being the most recent study. These studies recommended the careful development of securities markets in Ethiopia. Based on the recommendations, many actors such as the Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) tried to procure the government's permission for security market development. Yet such efforts did not succeed. Thus, the developmentof organized and vibrant secondary marketsin Ethiopia is still to be realized.

## OBJECTIVES OF THE STUDY

The major objective of the study is to assess the possibility of developing secondary markets in Ethiopia. The secondary objectives framed for this study are: (i) To explain the available opportunities and challenges observed in establishing secondary markets in Ethiopia; and (ii) To envisage the institutional and infrastructural requirements for the establishment ofsecondary markets.

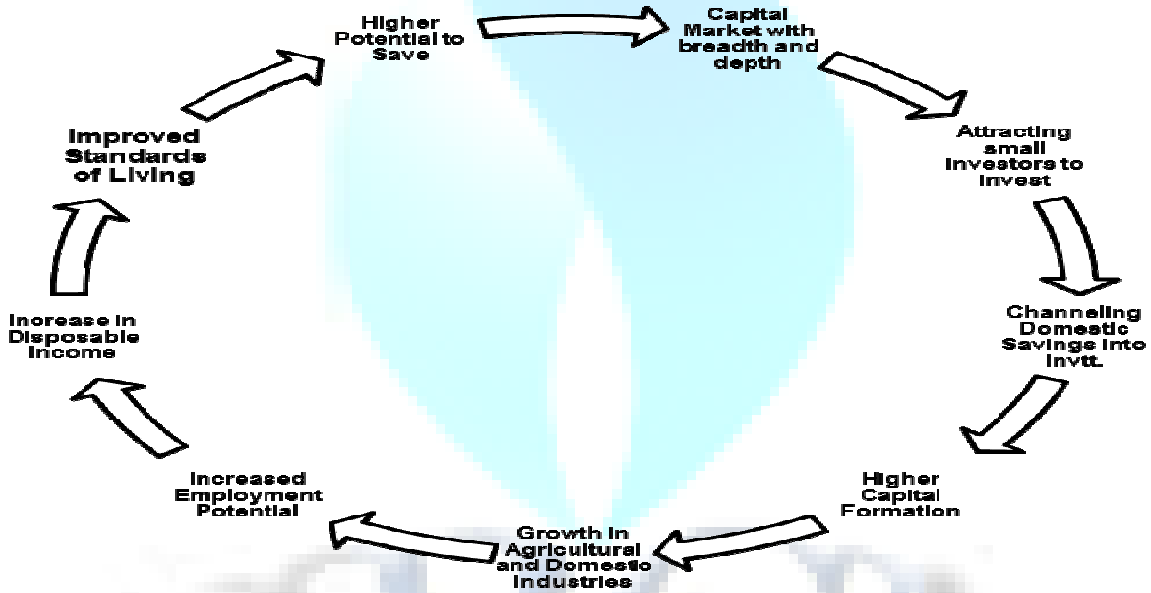
## METHODOLOGY

To achieve the above-mentioned objectives, the researchers gathered information from both primary and secondary sources. The primary data were gathered from interviews made with officials of different stakeholders' organizations who were directly and indirectly involved in the promotion of capital market in Ethiopia, viz., the National Bank of Ethiopia, the Public and Private Sector Commercial Banks, Development Bank of Ethiopia, Ethiopian Investment Agency, and Ministry of Finance and Economics Development.Secondary sources of information were taken from Annual Reports and Quarterly Bulletins of NBE, NBE-Directives, Annual Reports of DBE, Commercial Banks, and Insurance Companies, books on Financial Institutions and Markets by reputed authors, Journal articles on security market development in Ethiopia and other countries and other websites listed in references.

## CAPITAL MARKETS AND ECONOMIC GROWTH

It is an accepted view among researchers that there is a close relationship between capital markets and economic growth. Researchers such as Bencivenga et al. (1996), Levine (1991), and Obstfeld (1994) argued that stock markets provide services that boost economic growth and contribute to the achievement of these goals.

**FIG. 1: CAPITAL-MARKET-INDUCED-GROWTH CYCLE**




A capital market with greater breadth and depth will be able to attract domestic savings. Small investors would be wooed to pool their savings and invest in capital market instrumentsas they provide greater returns particularly in the long run. The domestic savings mobilized in turn will be channelized into investment, paving the way for greater and quicker capital formation.

Higher capital formation in industrial sector will enhance the capacity to produce capital and consumption goods. This will gradually reduce the import burden of the country. Import substitution has multiple effects on the economy, such as enhancement of employment potential, enthusing agricultural and domestic production, reducing balance of payments deficit, improving the productivity of agricultural and industrial sector and their contribution to the GDP of the country, and the like.

Higher GDP in turn will improve the individual disposable income, enhance the standards of living, and increase the saving potential. The increased saving potential will be met with higher opportunities to invest in capital market instruments, and that is how the "**Capital-Market-Induced-Growth-Cycle**" will operate. (Kannan, 2011)

## OPPORTUNITIES IN ESTABLISHING SECONDARY MARKETS IN ETHIOPIA

The current realities of the Ethiopian economy have many favorable conditions (opportunities) that can pave the way for security market development. This includes *Ethiopian-specific advantages, favorable macro-economic and social conditions, increased interest of foreign investors, the Growth and Transformation Plan (GTP), financial sector development, enhanced saving and investment potential, increased private sector participation, and high enthusiasm among stakeholders.*

### ETHIOPIA-SPECIFIC ADVANTAGES

Ethiopia has some unique country-specific advantages that ease the development of secondary markets. This includes (i) the country's history of independence that can have the potential to protect it from contagion effect of global turmoil; (ii) considerable unexploited resources such as fertile land, gold, platinum,

tantalum, soda ash, potash and natural gas;and (iii) over 80 million people (second most populous in Africa) thus providing one of the largest potential markets in Africa.

**FAVOURABLY EMERGING MACRO-ECONOMIC AND SOCIAL CONDITIONS**

The country is registering double digit GDP growth rates in the recent years, inflation although was high is now showing declining trend, unemployment rates are declining due to huge government projects and private sector development, foreign exchange reserves are increasing due to increasing export earnings and high remittance inflow. Besides the economic growth the human development is increasing consistently. Owing to government's commitment, access to education and its quality are showing a discernable progress.

**INCREASED INTEREST OF FOREIGN INVESTORS**

The current high enthusiasm among foreign investors in Ethiopia is a great opportunity to open up the security markets. With the opening of such markets the number of companies issuing shares and get listed in stock exchange will increase. This in turn will make the market vibrant, active and liquid and will further attract more foreign investors.

**GROWTH AND TRANSFORMATION PLAN**

The Ethiopian government drafted a new 5 year (2010-2014) Growth and Transformation Plan (GTP) that strives to change the country's economic structure in more fundamental way from agrarian based to modern industrial based economy. Implementation of GTP requires huge financial resources. As one of the ways of augmenting internal resources, saving mobilization is given much emphasis in the plan. The GTP triggers the development of security markets that are known to mobilize small household savings.

**FINANCIAL SECTOR DEVELOPMENT**

The banking sector is growing phenomenally. Both public and private banks open new branches in a phased manner. New market players like microfinance institutions catering to the urban poor and rural areas are also increasing the access to finance. Banking sector development is instrumental to security market development and this is considered as excellent opportunity to develop such markets.

**ENHANCED SAVING AND INVESTMENT POTENTIAL**

As a result of continued economic growth over the past years, the people's capacity to save is increasing and this can be considered as good opportunity to attract many investors to security markets. The financial institutions like the pension fund, insurance companies, and credit unions, are with large sums of money and if they are allowed to invest in secondary market, such investment would boost the demand for securities.

**INCREASED PRIVATE PARTICIPATION**

The level of private sector development is increasing continuously owing to improved business environment conditions. As a result, many companies are issuing shares to the public and this can be seen as nice opportunity to begin organized security markets.

**HIGH ENTHUSIASM AMONG STAKEHOLDERS**

Stakeholders such as the business community, the government, the academia, and society at large are enthusiastic about the possibility of developing security markets in this country. Many conferences, workshop and symposia were and are organized on such issues. Such high enthusiasm indicates that the time is appropriate for developing secondary markets.

## CHALLENGES IN ESTABLISHING SECONDARY MARKETS IN ETHIOPIA

Though it is highly laudable, the launch of security market is not without challenges. Some of the major challenges include: *Low Quality and Quantity of Financial Services, Paucity in Communication Network, Policy Measures Impetus, Gaps in Accounting, Auditing and Legal Infrastructure, Low level of saving and financial literacy, Inadequacies in skilled manpower, and Forms of Business Organizations.*

**QUALITY AND QUANTITY OF FINANCIAL SERVICES**

Banking system in Ethiopia is still in infant stage due to limited products range, poor outreach and weak inter-bank markets. The major financial products of the banking systems are saving and loan products. There are no many varieties even with such basic products. The use of check as a payment system is restricted only for current accounts. There is no full-fledged check-clearing facility across the country.While coming to the outreach at the end of First Quarter of 2010/11, Ethiopia had 712 bank branches all over the country, out of which 275 were in Addis Ababa. This means the bank branch to population ratio is 112,000 which is one of the poorest in this continent. Similarly there were only 209 branches of 13 insurance companies making one insurance branch to serve nearly 383,000 people.

**PAUCITY IN COMMUNICATION NETWORK**

Ethio-Telecom is the sole authority providing telecommunication services in the country. No other private players are currently operating in this field. For fast and smooth service, banks need highly developed communication network. Private Banks in particular feel that one of the impediments for the expansion of their branch network is the inadequate communication network across the country.

**POLICY MEASURES IMPETUS**

The policy related challenges includes lack of tax incentives for security market participants such as investors, firms and intermediaries which otherwise can be used to promote such markets, lack of awareness and willingness among the policy makers to push for such markets, prohibition of foreigners to participate in the financial sector of the country and low level of market orientation in the economy.

**GAPS IN ACCOUNTING, AUDITING AND LEGAL INFRASTRUCTURE**

Accounting and auditing standards in Ethiopia are not of a high and international acceptable quality. Share companies are not required to include audited financial statements. As there is no public offering and listing, there are no requirements regarding publicly available annual reports and their preparation and presentation in accordance with a comprehensive body of accounting standards. (Ruecker and Shiferaw, 2011).

Even without reporting requirement, there is general unwillingness among Ethiopian businessmen to provide financial information of any nature to the needy. As a result, the data compiled for private businesses do not reflect the true picture in most situations. Such data shortages and inaccuracies significantly affect researches made in accounting and finance areas and lead to errors policy making.Unlike other countries, information is not made available on the websites too, except for public and government undertakings. Often in many cases, the information provided is too outdated to be useful for any meaningful conclusion.

Laws and institutions governing corporations, securities and investors are insufficient according to international best practices and standards.The 1960 Commercial Code of Ethiopia is not up to date and has many grey areas. The registration of patents and trademarks are non-existent. The judiciary is poorly staffed and inexperienced in commercial cases. (Ruecker and Shiferaw, 2011)

**LOW LEVEL OF SAVING AND FINANCIAL LITERACY**

There is low saving rate in the country due to poor saving culture and weak saving capacity (a result of low per capita income). As the financial literacy of those participating in security markets seems to be poor, there is a strong and immediate demand to support financial literacy as soon as possible. (Ruecker and Shiferaw, 2011)

**LIMITED FORMS OF BUSINESS ORGANIZATIONS**

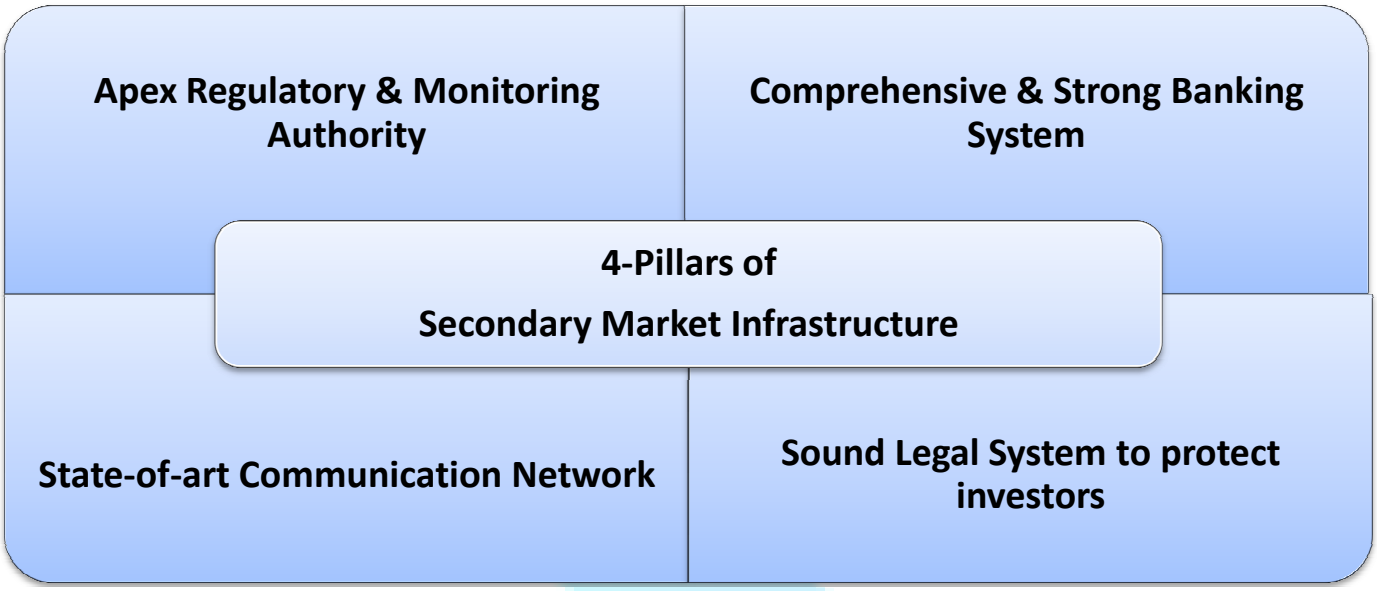
Most business organization forms in the country are sole-proprietorship or private limited companies rather than share companies. This is partly attributed to the owners need to maintain tight control over the firm and the perception by many companies that the risks associated with additional disclosure are not adequately compensated by additional returns. Since banks do not require public disclosure like the stock market does, many firms would prefer to remain privately-held and source their capital from banks. These firms cannot be expectedto use the services of stock market. The government should encourage privately owned companies to go public through tax and other motivational measures.

## INFRASTRUCTURE REQUIREMENTS FOR ESTABLISHING SECONDARY MARKETS IN ETHIOPIA

To address the issue of developing organized secondary markets in Ethiopia, the following are identified as the requirements:

**4-PILLAR MODEL**

The development of secondary markets requires institutional building and infrastructure development. This is described in the 4-pillar-model shown in figure 2 below. The top two pillars of the 4-pillar-model focus on Institutional Building aspects for the effective functioning of capital market: Apex Authority, and Comprehensive and sound Banking System. The bottom two pillars focus on the Infrastructure needed for efficient operations of a capital market: State-of-art Communication Network, and Sound Legal System to protect the Interests of Investors and other Stakeholders. (Kannan, 2011)




**INSTITUTIONAL BUILDING**

**PILLAR-1**: *An Apex Authority to Regulate and Monitor the Capital Market Operations (similar to Securities and Exchange Commission (SEC) of USA, and Securities and Exchange Board of India (SEBI).*

**PILLAR-2**: *A comprehensive and strong Banking System that offers wide products breadth and depth, high outreach and a developed money markets instruments*

The bank branches to population served ratio must be minimized, by encouraging more branches to be opened by Banks. Private Banks must be encouraged to widen their network. Incentives and tax concessions may be awarded to those branches which function in rural areas and promote rural savings.

Efforts are now taken by the National Bank of Ethiopia to strengthen the financial system. Vide directive No.SBB/50/2011, the NBE insisted the banks in having a minimum paid-up capital of 500 million birr, which has thrown new challenges to a sizeable of existing and upcoming private banks. Such banks are given a five-year period within which they are to enhance their resources and mobilize their capital. Similar measures are necessary on the insurance sector too, which is currently functioning with a comparatively much lower capital base (as low as 4 million Birr capital).

When looking at the money markets of Ethiopia, only few instruments are traded. This includes the Treasury Bills (28-days, 91-days, and 181-days maturities), Inter-Bank Loan market (which do not find much favor in most of the quarters reported), and Corporate Loan market (which has the bonds issued by 3 public enterprises, and a few Regional Governments). Obviously this underpins the need for widening the breadth and enhancing the width of the financial markets in Ethiopia.

Microfinance institutions catering the need of poor households in urban and rural areas should be strengthened. High level of financial inclusion in the rural and poor urban sector helps to mobilize small household saving and channel to productive investments.

Presently there is only one Development Bank in Ethiopia (the Development Bank of Ethiopia)with a capital base of around 2 billion, and a branch network of 32. Though named a 'Development' Bank, its function is a hybrid of commercial and development banking. An analysis of its annual reports reveals around 60% and 30% of loan disbursements were made to agricultural and domestic businesses respectively, the share of industrial sector was in the range of 10%. This point to the need for improving credit to the industrial sector that is currently contributes to 11 percent of the GDP and a focus of GTP.

By establishing additional Industrial and Development Banks in the models of Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), and Industrial Credit and Investment Corporation of India (ICICI), the Ethiopian Industry will be infused with more blood and will yield multiple benefits such as increase in domestic production, enhancement of employment opportunities, improvement in balance of payments, and higher contribution to the GDP. Moreover, such a move would enable the commercial banking sector to concentrate on their core and profitable ventures, viz., domestic trade and services and international trade.

Creating Mutual Fund Institutions should be considered. Mutual Funds are financial intermediaries which acquire funds by selling shares to many individuals and use the proceeds to purchase diversified portfolio of stocks and bonds. Mutual funds allow shareholders to pool their resources so that they can take advantage of lower transaction costs when buying large blocks of stock or bonds. In addition, mutual funds allow shareholders to hold more diversified portfolios than they otherwise would. (Mishkin& Eakins, 2006)Mutual Funds will enable the pooling of mobilized resources from low income people, and will make them indirectly participate in capital market activities, with practically no in-depth expertise and minimal risk.

**INFRASTRUCTURAL DEVELOPMENTS**

**PILLAR-3**: *State-of-art Communication Network which would facilitate good networking within the banking system and ensure free flow of communication among investors to lead the goal of efficient market operations.*

This is one of the urgent and greatest necessities. Better and more reliable communication network is needed for expansion of banking and insurance network, as well as for stock trading activities.

**PILLAR-4**: *Sound Legal System to protect Investors' interests as well as the interests of the other major stakeholders in Capital Market, viz., the Government, the Corporations and intermediaries.*

Once the small investors are motivated to enter into capital markets, there is a greater need to strengthen the legal system to protect their interests. Strict laws in line with the advanced countries are to be made to prohibit insider trading, short selling and other unfair practices. Financial Regulation is a dynamic and challenging issue with which even advanced countries are facing perennial problems. Care should be taken to study the financial regulations prevailing in various countries, and to develop the one that suits the Ethiopian System.

To make the trading easy and versatile, a number of investment dealers and brokers are to be licensed and motivated to run their operations. Monitoring their financial strength and transparency of operations is mandatory to protect the investors from the unscrupulous activities of stock brokers.

**POLICY INFRASTRUCTURE**

Policy framework has to be strengthened in order to attain *macro-economic stability, development of accounting and audit standards, and enhancing higher institutions' participation.*

**MACRO-ECONOMIC STABILITY**

One of the major pre-requisites for secondary markets development is macro-economic stability. This can be ensured by means of: (i) easing out inflation rates to acceptable levels, (ii) ensuring economic growth through appropriate monetary and fiscal policies, and (iii) stabilizing exchange rates.

**ADAPTATIONS IN THE TAX SYSTEM AND POLICY MEASURES**

The tax system must be suitably adapted to induce market participants to save and invest. Earners must be encouraged to save sizeable portion of their income for which exemptions from tax levy may be granted. In order to attract small saving, innovative products should be floated after appropriate research. Campaigns should be undertaken at the national level.

**DEVELOPING STANDARDS FOR ACCOUNTING AND ALLIED PROFESSIONS**

The accounting, auditing and finance profession in Ethiopia must be strengthened. Akin to University Qualifications at the National Level, clear guidelines for the minimum eligibility for practice should be established. Code of Professional Practice must be developed in order to ensure ethical behavior among the professionals. Strict adherence to the Code should be insisted upon.

**PARTICIPATION OF HIGHER EDUCATIONAL INSTITUTIONS**

Higher Educational Institutions must be encouraged to develop programs that address the needs of corporate. They must also be directed to design and deliver training programs to cater the needs of the surrounding business community. Efforts must be taken to enhance the financial awareness among investing public. Active research in development of young and upcoming financial sector should be encouraged. Encouragement must be given to those Universities who try to collaborate with foreign Universities in know-how enhancement.

## CONCLUSION

Establishing Secondary markets in a country is not a task that can be achieved over-night. It requires careful planning and long-term orientation. By drawing information from primary and secondary sources, this study points out the various issues to be considered for the development of secondary markets. Further the study weighs the benefits and costs of these markets to the economy as a whole and to market participants, and assesses Ethiopian-specific opportunities and challenges. It lays out institutions and infrastructures needed for security market development. Considering (i) current growth in the number of share companies, (ii) need for infusing higher capital to various economic sectors, and (iii)increased capacity to save due to higher economic growth, **the** researchers conclude that the policymakers must seriously consider the launching of secondary markets in Ethiopia.

## RECOMMENDATIONS

Developing secondary markets in Ethiopia is fully dependent on the detailed plan that needs to be made in the future. *A high level committee, consisting of representatives of all stakeholders, such as the Ministries, the National Bank, the public and private sector financial institutions, renowned academicians, reputed industrialists, representatives of public bodies and private sector, is to be formed to study the feasibility of secondary markets in Ethiopia and to draw a long-term plan (of around 3 to 5 years) to establish the same.* It is recommended that the high-level committee, *inter alia* proclaimed tasks, carry out:

- Studying the Ethiopian Commodity Exchange (ECX) experience in depth as to the way in which the plans had been drawn prior to, during and post-launch of its operations, and the organized manner in which the activities are presently carried out;
- Sharing of experiences from developed, emerging and least developed countries.

Finally, it is to be borne in mind that the launching of organized secondary markets must be preceded by: (i) instituting a proper authority to regulate and monitor the security market operations, and (ii) proclaiming well-drafted companies legislation that would streamline the operations of share companies as well, and securities legislation to organize the dealings in securities of all forms in the country.

## SIGNIFICANCE OF THE STUDY

The study is significant for it initiates serious thinking in policymakers towards organizing primary market operations and establishing secondary market in Ethiopia; it induces the academic and professional community to conduct further researches on various aspects of this issue; and it could serve as a reference material in institutions of higher learning in Ethiopia and rest of the world.

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