Market Potential Assessment and Road Map Development for the Establishment of Capital Market in Ethiopia

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ABBREVIATIONS

AACCSA	Addis Ababa Chamber of Commerce and Sectoral Associations
ACCA	Association of Chartered Certified Accountants
AFDB	African Development Bank
CBE	Commercial Bank of Ethiopia
CEO	Chief Executive Officer
CG	Corporate Governance
CM	Capital Market
CMA	Capital Market Authority
CPI	Consumer Price Index
CSD	Central Securities Depository
DBE	Development Bank of Ethiopia
ECCSA	Ethiopian Chamber of Commerce and Sectoral Associations
ECEA	Ethiopian Commodity Exchange Authority
ECMA	Ethiopian Capital Market Authority
ECSD	Ethiopian Central Securities Depository
ECX	Ethiopian Commodity Exchange
EPAA	Ethiopian Professional Association of Accountants and Auditors
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESDG	Ethiopian Share Dealing Group
ESX	Ethiopian Securities Exchange
EUR	Euro
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
FSCBP	Financial Sector Capacity Building Project
FY	Fiscal Year
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan 2010/11 to 2014/15
HDI	Human Development Index
IASB	International Accounting Standard Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
ISO	International Organization for Standardization

JSC	Joint Stock Company
MoFED	Ministry of Finance and Economic Development
MoT	Ministry of Trade
NA	Not Available
NAAB	National Accounting and Audit Board
NBE	National Bank of Ethiopia
ODA	Official Development Assistance
OTC	Over-The-Counter
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PLC	Public Limited Company
PPESA	Privatization and Public Enterprises Supervision Authority
PSD	Private Sector Development
SDPRP	Sustainable Development and Poverty Reduction Program
SE	Stock Exchange
SIDA	Swedish International Development Cooperation Agency
SOE	State Owned Enterprises
SSA	Sub-Saharan Africa
TOR	Terms of Reference
WB	World Bank
WTO	World Trade Organization

1 INTRODUCTION

1.1 Background

Since the abolition of the Addis Ababa Share Dealing Group in 1974 by the military government ruling Ethiopia at the time, no capital market has been in place in Ethiopia in whatever form.

The need for capital market development has, however, been continually discussed by various groups/stakeholders and academics. Accordingly, various studies have been carried out by these groups to initiate the establishment of capital market in the country. (See Annex I for the list of studies and reviews on capital market establishment in Ethiopia.)

In 1995, the National Bank of Ethiopia (NBE) reportedly undertook a study on the "Feasibility of Establishing of Securities Exchange Market in Ethiopia" and also prepared a draft securities and exchange proclamation. These documents are not, however, accessible as NBE is waiting for the endorsement of the Government of Ethiopia (GoE).

Later, in 1997/98, an analysis on the prospects and challenges of developing a securities market was made by Professor Asrat Tessema of the Eastern Michigan University when he was a Fulbright Scholar at Addis Ababa University. The analysis focused on the need for capital market development in developing countries like Ethiopia where there is acute shortage of capital which is a major constraint for rapid economic development. The analysis concluded by recommending the establishment of a capital market in Ethiopia sooner rather than later, citing some African countries that started the scheme and are successful in their economic development.

Shorter studies on the need for capital market development in Ethiopia were also undertaken by interested bodies and entrepreneurs during the end of the last decade. These include a study entitled *"Towards the Development of a Capital Market in Ethiopia"* by Tadewos Harege-Work and Araya Debesay, and a similar research entitled *"Towards Promoting Capital Market in Ethiopia"* by the East African Securities Company (a private company established to promote capital market development). Both were published at about the same time. The studies elaborated on the importance and the rationale behind the need for the establishment of a capital market in Ethiopia. They favoured the formation of a capital market citing several advantages for the development of the country.

A seminar on capital market development was held at Mekelle University under the topic *"Towards Promoting Capital Market in Ethiopia: Opportunities and Challenges"* in 2000. The objective of the seminar was to discuss the benefits and the possibility of initiating an Ethiopian capital market. It attracted a number of businesspeople, academics and other stakeholders. Most of the eleven papers presented at the seminar strongly emphasized the necessity and importance of having a capital market from the practical aspect of an alternative source of finance for private sector initiated economic development and other benefits to the national economy. Nevertheless, there were also papers which advised caution and outlined the high costs and potential risks in capital market development and called for a study that clearly establishes the case and its viability.

In that same year a group of entrepreneurs organized as the Ethiopian Share Dealing Group (ESDG) under the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) initiated a share dealing group similar to the former Addis Ababa Share Dealing Group of 1974. The group initiated the development of a Stock Exchange (SE) rules and regulations as well as bylaws of a share dealing group, and commissioned Ernst & Young to develop an international standard rules and regulations manual. The manual developed consisted of two volumes: (1) Membership requirements, (2) Listing Rules, (3) Requirements for Insurers in Volume I; and (4) Listing of shares, (5) Listing of Bonds, (6) Trading Rules, (7) Rules for clearing and Settlement of Stock Exchange Transactions in Volume II. Though these were serious attempts in re-launching share dealing in Ethiopia, they bore no fruit due to lack of endorsement or support for the initiative from the GoE.

As recently as 2008, the NBE launched a capital market infrastructural development study by international consultants under the Financial Sector Capacity Building Project. The study included capital market infrastructure development in Ethiopia. This initiative was financed by the World Bank (WB) based on the potential interest of the GoE. According to the WB Ethiopia Office and the Project Unit at NBE, the study is under review by the concerned GoE body.

The World Bank sponsored analysis of capital market infrastructure development in the overall Financial Sector Capacity Building Project (FSCBP) in that year and these studies are completely independent and were not disclosed to the respective teams.

1.2 Objective

The objective of this study is to assess the potential for a capital market in Ethiopia, assess its implications on access to equity finance for the private sector, and develop a road map for its establishment.

1.3 Methodology of the Study

This study is based essentially on primary field and secondary research work undertaken in the period of April 4th through May 20th 2011.

A total of 33 international expert working days, including the on-site inception and validation phase, have been allocated to the study. The information provided in the present report comes mainly from existing studies, documents and communications as well as from working sessions with qualified counterparts and/or stakeholders in this project.

The overall tasks undertaken in conducting the study focused on the following approach:

- A clear focus on the objectives and deliverables defined in the Terms of Reference (ToR);
- Performance and result driven research and development;
- Practical and pragmatic reporting without hiding behind theoretical concepts;
- Completely unprejudiced study approach that is entirely open to any study result;
- Primary and secondary desk, internet and field research;
- Individual and non-standardized interviews with key stakeholders, and research meetings based on a standardized capital market potential assessment questionnaire (see Annex III);
- Review and study of existing literature, studies and minutes;
- Qualitative analysis of potential capital market demand and supply; and
- Qualitative analysis of an existing secondary market (if any).

2 OVERVIEW OF ETHIOPIA'S ECONOMY AND JUSTIFICATIONS FOR CAPITAL MARKET DEVELOPMENT

2.1 Overview of Ethiopia's Economy [1]

2.1.1 General

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 350 per year, Ethiopia's per capita income was much lower than the SSA average of USD 1,077 in the financial year (FY) 2009.

In recent years, Ethiopia has been one of the fastest growing economies in Africa. Nevertheless, its robust growth performance and considerable development gains from 2003 to 2007 came under threat during 2008 and 2010, with the emergence of twin macroeconomic challenges of high inflation and a difficult balance of payments situation. The problem was exacerbated by the high fuel and food prices in the global market.

However, the Ethiopian economy has navigated the global economic crisis much better than most developing countries. Exports, remittances and foreign investments, after falling modestly in 2008 and 2009, have recovered and exceed their pre-crisis level. With the rise in exports, earnings and relative slowdown of imports, the foreign exchange reserves have increased from barely four weeks of imports cover in October 2008 (USD 764 million) to more than two and a half months of imports at the end of December 2010 (USD 2.4 billion). The current account deficit (excluding official transfers) which stood at 13 percent of the Gross Domestic Product (GDP) in 2008/09 improved to 10.1 percent of GDP in 2009 to 2010.

The GoE has taken a number of measures in the last two years (e.g., tightening fiscal policy and reducing government's domestic borrowing, mitigating the impact of high food prices on the poor through import of cereals, reducing the domestic borrowing of public enterprises, tightening money supply, and depreciating the local currency in several steps and introducing price caps on selected goods) to address the macroeconomic problems.

While Ethiopia's economy is expected to continue to grow at a healthy pace, its macro situation will remain under stress in the foreseeable future. The economy is likely to slow down in the coming years, though the growth rate will remain respectable from a global perspective. The International Monetary

[1] WB, Ethiopia: Country Brief
http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/ETHIOPIAEXTN/0,print:Y~isCURL:Y~menuPK:295939~pagePK:141132~piPK:141107~theSitePK:295930,00.html

Fund (IMF) estimates the real GDP growth rate will decrease from 9.9 percent in 2008/09 to 8.0 percent in 2009/10, and forecasts it will reach 8.5 percent in 2010/11. However, the GoE estimates the growth to reach 10 to11 percent during the current FY.

The annual end-of-period inflation, which stood at 17.7 percent in January 2011, slightly decreased to 16.5 percent in February 2011. Non-food inflation also remains stubbornly high at 22 percent, possibly due to the upward revision of fuel prices, coupled with a series of depreciations of the local currency in the past months, which in turn has led to an increase in the cost of production as well as transportation. In an effort to control inflation and the rising cost of living, the government has been taking various measures, including putting price caps on selected goods and increasing the salary of civil servants by 35-39 percent.

Although the formal Ethiopian state structure has been transformed from a highly centralized system to a federal and increasingly decentralized one, a number of challenges remain.

The table below shows Ethiopia´s current membership status in international organizations as it may have an impact on the international perception of Ethiopia as an investment place.

Table 1: Ethiopia´s Membership in International Organizations [2]

Financial Action Task Force (FATF)	Not a member
International Centre for Settlements of Investment Disputes (ICSID)	Signatory on September 21, 1965, but never ratified
International Federation of Accountants (IFAC)	Not a member
Multinational Investment Guarantee Agency (MIGA)	Yes, a member
United Nations Convention Against Corruption	Signatory on December 10, 2003
World Intellectual Property Organization (WIPO)	Yes, a member
World Trade Organization (WTO)	Observer status

[2] eStandardsForum:"Country Brief Ethiopia 2009" http://www.estandardsforum.org/system/briefs/254/original/brief-Ethiopia.pdf?1254987840

2.1.2 The Financial Sector

The Ethiopian economy has been under state control through a series of industrial development plans ever since the Imperial government. It was managed as a Soviet-style centralised economy under the socialist government from 1976 to 1991. Even though significant development steps were taken by the Government since 1991, Ethiopia's financial sector is relatively small, closed and much less developed than those of its neighbours. The government dominates lending, controls interest rates, and owns the largest banks.

In order to improve the business environment, a revised investment proclamation which created additional incentives for foreign investors was approved in 1996. Major provisions included duty-free entry of most capital goods and a reduction of the capital gains tax from 40 percent to 10 percent. In addition, the GoE opened a number of previously closed sectors of the economy to foreign investment, although financial services, large-scale power production, telecommunications, and other public utilities remain off-limits. Official estimates reveal more than 50 foreign investors have been given licenses since 1996.

However, the financial sector is small, shallow and underdeveloped. There are over 15 banks, of which three are state-owned and 12 private[3]. The GoE owns the three largest banks, including the Commercial Bank of Ethiopia (CBE) which accounts for two-thirds of outstanding credit. Non-performing loans have significantly decreased after the foreclosure law was put in place and the figures were 3.5 percent in March 2011, according to the feedback received at the validation workshop. As of 2010, private banks controlled approximately 38.7 percent of the total assets in the banking system.

The IMF has indicated that "*highly negative real interest rates are fostering a decline in real growth in deposits in the banking system.*" To contain inflation, it recommended the central bank to "*impose stricter liquidity controls to contain broad money growth, which was 22.7% in the year to November 2008 ... Treasury bill sales should be stepped up as a monetary management tool, rather than relying on increases in reserve requirements.*" In 2010 there were 26 microfinance firms with about one million clients which operated mainly in urban and semi-urban areas[4]. Microfinance firms are exempt from paying profit tax on their profits if they reinvest their profits in the business. This is government incentive to expand micro finance business and access to finance for the low income group.

[3] Access Capital Banking Sector Review 2010

[4] Association of Ethiopian Microfinance Institutions

The Birr operates under a managed exchange rate regime. It depreciated by 8 percent in 2008. The decline has been sped up in 2009 in order to erase the Birr's considerable overvaluation as the pace of depreciation has lagged behind the high inflation rate.

The National Bank of Ethiopia, which is a central bank, maintains a monopoly on all foreign currency transactions. It supervises all payments or remittances made overseas. The Birr is not freely convertible. Residents can only hold foreign currency for 45 days before they have to exchange it at a bank.

Although the GoE seems to understand the potential importance of financial liberalisation, it is widely believed that liberalisation may result in a partial or even total loss of control over the local economy and may not even be economically beneficial. Because of that, the NBE maintains control on all foreign exchange transactions and supervises all foreign exchange payments and remittances. However, in recent years, the GoE has allowed the local private sector to participate in banking, although foreign ownership and branch operations remain strictly barred.

No securities market, except short term government treasury bills, is present yet in the financial market. But in 2008 the Ethiopian Commodity Exchange (ECX) was introduced by a group of highly devoted local experts. On the ECX, coffee, sesame, haricot beans, wheat and maize are traded. The ECX is a new initiative for Ethiopia and the first of its kind in Africa. The vision of ECX is to revolutionize Ethiopia's tradition bound agricultural system through creating a reliable and sustainable marketplace that serves all market participants, including farmers, traders, processors, exporters and consumers.

The GoE is committed to alleviating poverty through private sector development (PSD) and through integrating Ethiopia into the global economy. However, the GoE does not seem prepared to privatise the largest State Owned Enterprises (SOEs) like CBE, Ethiopian Electric Power Corporation, Ethiopian Insurance Corporation, Ethiopian Telecommunications and Ethiopian Airlines[5] nor allow for private ownership of land or opening the financial sector to foreign participation and/or competition.

The WTO General Council established a Working Party to examine the application of Ethiopia on 10 February 2003. Ethiopia's Memorandum on its Foreign Trade Regime was circulated in January 2007. The Working Party on the Accession of Ethiopia held its first meeting in May 2008 to begin

[5] Ethiopian Airlines is with rank 129th the only Ethiopian company within the top 500 companies in Africa in 2010. The Africa Report, http://www.theafricareport.com/rankings/top-500-companies.html

the examination of Ethiopia's foreign trade regime. The latest status of the WTO accessions does not indicate a membership of Ethiopia in the near future and will therefore not have an immediate impact on the financial sector. Establishment of a capital market and its potential opening up for foreign investors will, on the other hand, support the accession of the country to the WTO.

2.2 Justifications for the Creation of a Capital Market

A capital market is a market for debt or equity securities and other financial instruments, where companies, municipalities and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on the money market. The capital market includes the bond market for debt instruments and the stock market for equity securities. Sophisticated capital markets offer derivative financial products such as futures, options and structured products. Capital markets may be classified as primary markets and secondary markets. In primary markets, new bond or stock issues are sold to investors via the mechanism known as underwriting. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a stock exchange (SE), over-the-counter (OTC), or elsewhere.

Capital markets promote economic efficiency by channelling money from those who do not have an immediate productive use for it to those who do. A well-functioning capital market, coupled with a developed financial sector, is the main asset for every national economy since it promotes economic growth and supports the eradication of poverty.[6] In its often-cited publication, *Finance for Growth*, the World Bank (WB) concluded, "*Getting the financial systems of developing countries to function more effectively in providing the full range of financial services ... is a task that will be well rewarded with economic growth.*" [7]

More specifically, capital market and financial sector development promote growth in the following ways:[8]

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6 After implementing the PRSP and Plan for Accelerated and Sustained Development to End Poverty (PASDEP) the new focus of the Federal Democratic Republic of Ethiopia (FDRE) is the GTP, the National Growth and Transformation Plan.

7 Gerard Caprio and Patrick Honohan, Finance for Growth: Policy Choices in a Volatile World, (New York: Oxford University Press, 2001), p. 2.

8 Paul V. Applegarth, Capital Market and Financial Sector Development in Sub-Saharan Africa: A Report of the Policy Advisory Panel (Washington, Center for Strategic and International Studies, 2004)

- **Capital market promotes private sector development.**

  Access to and ease in movement of financial resources fundamentally influences the prospects for private sector growth in developing countries' economies. The extent to which existing firms can borrow and grow, the ability of emerging firms to act entrepreneurially, their willingness to invest in assets, and the ability to allocate their assets freely are all determining factors to economic growth. An examination of the levels of capital market development and economic growth in Asia with those in SSA shows that India and China continue to add several hundred companies to their stock exchanges annually. The immediate benefit of the flourishing capital market activity in Asia is reflected in the sizeable increase in the momentum of private sector development. In contrast, the number of companies added by each of the major SSA exchanges, other than South Africa, was generally fewer than ten.

- **Capital market increases liquidity which is linked to economic growth.**

  An increase in the number of firms and investors participating in exchanges generates liquidity or the volume of active trading. Liquidity has a proven relationship with economic growth. Recent studies have found that countries with a well-developed financial sector and a liquid capital market experience have faster rates of capital accumulation and greater productivity gains. This positive relationship is outlined by Ross Levine[9], whose study has become a standard literature in this regard. As liquidity increases, firms gain increased assurance that they will be able to exit from longer-term investments. They therefore become more willing to make the permanent investments critical to development. Simultaneously, local consumers are more willing to mobilize domestic savings. This process allows for a market-based system of allocating financial resources, whereby more resources are more efficiently distributed to the more productive and innovative firms.

- **Capital market helps mobilize local savings and makes resources available for local decision-making.**

  Capital market development encompasses more than just foreign inflows to emerging markets. Equally important is the cultivation of local investor interest as a means of increasing the available investment

[9] Ross Levine, "Stock Markets: A Spur to Economic Growth," Finance and Development 33, No.1 (March 1996): 8, http://www.imf.org/external/pubs/ft/fandd/1996/03/pdf/levine.pdf.

sources within an economy. An increase in domestic investor interest originates from the availability of profitable options for saving within the local economy; in other words, the existence of incentives to keep money in float domestically. Formal and credible savings options, which include such instruments as pension plans, insurance policies, and mortgage markets, are key to generating necessary sources of financing within an economy and to allow more resources to be mobilized and efficiently allocated to various investment needs thereby serving to drive the growth process. The central benefit of this activity is the increase in local decision-making and input from local stakeholders.

- **Capital market enhances competition among banks, reduces financing cost and contributes to a greater diversity of financial institutions.**

  At the heart of local capital market development is the mobilization of domestic savings for a broader array of institutions with varied investment objectives. In comparison to other developing countries, Ethiopia does not mobilize its domestic capital effectively. The lack of long-term local currency savings instruments is a barrier to local investment of local capital. SSA financial activity can be characterized by the oligopolistic behaviour of a few commercial banks (in several cases, government-owned). The absence of adequate competition is reflected in the large gap between deposit rates for savers, which tend to be very low, and interest rates for borrowers, which tend to be very high. Moreover, there is evidence that banks' returns on equity are higher in Africa than in other developing regions. Cultivating channels for firms to issue various debt instruments and raise equity, while simultaneously providing more long-term options for saving and asset management for investors, will benefit enlarging economies by increasing market efficiency and decreasing financing costs.

- **Capital market could increase volume of remittances and facilitate their use.**

  Establishing mechanisms for facilitating cost-effective transfers and savings of funds received through remittances – a rapidly emerging source of private capital in developing countries – can contribute to economic growth. In 2008, Ethiopia recorded an inward remittance flow of USD 387 million as compared to an outward remittance flow of 21 million. For comparison, the net Foreign Direct Investment (FDI) inflows in 2008 were USD 100 million, net official development assistance ODA[10] received USD 3.3 billion, total international reserves USD 900 million, exports of goods and services USD 2.9 billion.[11] Remittances offer a promising and stable potential for increasing domestic savings and fostering domestic investment. A developed capital market with a variety of financial instruments will increase the overall attractiveness of Ethiopia as a place for investments, especially for the Diaspora.

- **Capital market leads to improved corporate governance.**

  Capital market development necessitates the creation of a legal and regulatory framework incorporating investor protection mechanisms as well as increased transparency and information dissemination. The competition for capital on well-developed capital markets heightens Corporate Governance (CG), improves transparency, facilitates fair and transparent pricing, and boosts investor confidence. Industry-level data from various studies have shown a positive relationship between market-based governance and improvements in industry efficiency. Industry efficiency is important because it promotes economic growth thereby reducing poverty reduction.

- **Capital market rewards sound economic policies and creates tools to conduct monetary policy.**

  The cost of sovereign borrowing is directly related to the economic conditions and policies in a country. A government that implements good economic policies is rewarded by lower borrowing costs on its sovereign bond issues, thus creating a market-based versus donor driven incentive to strengthen financial sectors. Furthermore, debt markets provide a tool for central banks to manage the money supply and control inflation.

2.3 Practical Benefits of Capital Market to Ethiopia

Results from previous studies show that African capital markets, with the exception of the South African stock market, are generally small, illiquid,

[10] ODA is a statistic compiled by the Development Assistance Committee of the Organization for Economic Co-operation and Development to measure aid.
[11] World Bank, "Migration and Remittances Fact Book 2011", 2011

face infrastructural bottlenecks and have weak regulatory institutions[12]. Despite these problems, studies[13] indicate that a well-functioning Ethiopian securities market could provide the following benefits:

- Enhanced capital mobilization;
- Efficient capital allocation;
- Mobilization of (local and Diaspora) savings for the economic sector;
- Further flexibility in corporate finance;
- Promotion of an efficient financial system;
- Supply of long-term funding;
- De-concentration of ownership and broader distribution of corporate profits, resulting in wealth creation for private investors;
- Improvement of accounting and auditing standards accompanied by higher reporting standards;
- Provision of effective tools for monetary and fiscal policy;
- Support of transparent and efficient privatization process;
- Stimulation of private sector development;
- Economic growth;
- Lower unemployment rates and poverty reduction; and
- Indirectly support banks in getting back the non-performing loan portfolios.

2.4 Best Practices on Capital Market Development

Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the asset's market price. Liquidity is characterized by a high level of trading (buying and selling) activity. Assets that can be easily bought or sold are known as liquid assets. Liquidity is the ability to convert an asset to cash quickly – also known as "marketability". Whereas there is no specific liquidity formula, liquidity is often calculated by using liquidity ratios. Actually liquidity is all that counts for the investor and issuer, and liquidity is the benchmark for each capital market. All over the world, the first question of market participants, who are interested in doing some capital market transactions will be the question of liquidity. It is a bit like a vicious circle: if there is no liquidity, there is no interest in the market. If there is no interest in the market, there will be no liquidity.

[12] A number of propositions have been suggested to help develop stock markets in Africa. These include the need to increase automation, demutualization of exchanges, regional integration of exchanges, promotion of institutional investors, regulatory and supervisory improvements, attraction of private capital, involvement of foreign investors and educational programs. To find out more about these propositions see the IMF Working Paper "Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges" by Charles Amo Yartey and Charles Komla Adjasi, 2007

[13] For a detailed review of the rationale for developing securities, market with a special focus on Ethiopia see "Prospects and Challenges for Developing Securities Markets in Ethiopia: An Analytical Review" by Asrat Tessema, 1998

Liquidity is the key benchmark and requisite for a sustainable capital market, and in order to assess the market potential for the establishment of a capital market in Ethiopia one has to assess the potential liquidity of such a capital market. What has proven to be a common feature among African stock exchanges (SEs) so far is a severe lack of liquidity. Most African SEs do not provide a sufficient level of liquidity. The most remarkable result of illiquidity is an unfair market price. Therefore, illiquid securities carry higher risks than liquid ones; this becomes especially true during times of market turmoil, when the ratio of buyers to sellers may be thrown out of balance. During these times, holders of illiquid securities may find themselves unable to sell them at all, or unable to do so without losing a lot of money. For a capital market in Ethiopia liquidity is even more important because of the limited investor and issuer base. As Ethiopian investors only have a small portion of their household income to invest, a fair priced - liquid - market is imperative in order to avoid creating systematic losses for the general public.

Therefore, understanding the importance of liquidity and observing the evident demand for long-term capital seems advisable to seriously consider the establishment of a capital market in Ethiopia. Therefore, strong support from the Government is needed to provide the investing public, institutional as well as private investors and companies in need of capital with a reliable and well regulated securities market. It is in the power of the GoE to support the establishment of a liquid capital market and fill the existing financing gap of public and private companies by offering them an alternative financing route via the securities market.

The GoE can jump-start an Ethiopian capital market by initially selling (minority) stakes of some large and popular SOEs to local investors via a potential Ethiopian securities market thereby securing sustainable liquidity as proved successful in various jurisdictions worldwide. Such initial public offerings (IPOs) of minority stakes of SOEs will on one hand not significantly dilute the majority shareholdings of the GoE but on the other hand jump-start the Ethiopian securities market and possibly influence investment growth in the real sector. This will also have a positive impact on institutional investors, like insurance companies, pension funds and commercial banks, and drive infrastructure development and economic growth if designed in the right way.

Table 2: Indicators of Stock Market Development in Africa, 2008 [14]

Country	Number of Listed Companies	Market Capitalization (USD billion)	Annual Turnover (USD million)	Average Daily Liquidity (USD million)
Botswana	31	3.7	155	0.6
Egypt	373	86.0	289	NA
Ivory Coast	37	6.8	293	1.1
Ghana	35	14.9	304	1.5
Kenya	46	10.1	NA	6.1
Malawi	14	1.8	60	0.2
Mauritius	40	3.4	349	1.5
Namibia	11	NA	1,500	NA
Nigeria	262	53.0	18,200	72.7
South Africa	403	214.1	76.5	45.0
Swaziland	6	9.3	0.0	0.0
Tanzania	14	3.8	25	0.1
Uganda	9	0.8	52	0.4
Zambia	19	4.1	NA	0.6
Zimbabwe	77	0.9	NA	NA

Best practices on capital market development mainly focus on:

- Priority number one: Market trust (and integrity);
- Main benchmark: Liquidity;
- Political and macroeconomic set-up (including political stability, low volatility in GDP growth, macro-economic stability and medium-term visibility on the macroeconomic front);
- Active and well developed domestic investor base;
- Electronic trading and settlement infrastructure;
- Market efficiency;
- Real-time availability of market information; and
- Transparency (including accounting, auditing, corporate governance, etc.)

[14] Securities Africa Limited, 2008 and WB

2.5 Impacts of Capital Market on the Private Sector

Capital markets, particularly bond markets, are increasingly in demand by emerging market countries to finance areas such as housing, infrastructure and private sector development. For example, infrastructure investment needs are estimated at 7 - 9 percent of GDP for least developed countries with public spending for infrastructure averaging only 2 - 4 percent. Bond markets also provide long-term assets to rapidly growing institutional investors such as pension funds and insurance companies. Furthermore, domestic bond markets help to diversify a country’s financial sector and expand risk management tools for borrowers and investors.

As private entrepreneurs and business enterprises in Ethiopia have trouble securing long-term financing from established banking institutions, the establishment of a capital market could enable private sector companies to raise equity capital through the issuance of shares or long-term funds, and once issued the securities may be traded. This supports a sustainable private sector development which can contribute to the growth of the economy. Furthermore, the establishment of a capital market would boost domestic banking business, of which a significant portion is held by private banks.

3 MARKET POTENTIAL ASSESSMENT

3.1 Preconditions for the Development of Capital market

For the successful establishment of a capital market in Ethiopia, it is essential that specific preconditions are in place. These are sufficient government commitment to capital market development, macroeconomic conditions that permit development and operation of such a market, and a reliable market environment which supports the operation of a fair, transparent and well regulated capital market in which investors will be willing to place their confidence.

3.1.1 Government Commitment

There are 23 countries that have stock markets in Africa. South Africa has four stock markets, while Zambia and Nigeria have two each. All the remaining 21 countries have one stock market each. Nairobi Stock Exchange is the oldest stock market in the continent and was launched in 1954.

Although there were efforts by several institutions like the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) to introduce a capital market and a stock market in Ethiopia, they have failed to get permission from the government. The GoE seems to understand the merits of having a capital market. However, the officials also feel that a capital market might not contribute to the short-term development of the country. Instead, the GoE introduced the ECX, the objective of which is to provide fair and transparent pricing of major agricultural products in 2008.

The GoE is not strongly committed to capital market development. So far, no evidences exist that suggest the willingness of the government to create a capital market law or Securities Act which adequately regulates the capital market consistent with, for example, the principles of the International Organization of Securities Commissions (IOSCO). The GoE has not yet established a dedicated independent financial services authority responsible for capital market regulation, assuring market confidence, financial stability, consumer protection and the reduction of financial crime. To date it has not also established any particular legal and/or regulatory infrastructure to establish a capital market. Since the GoE is issuing debt instruments for state finance, it does not seem interested in either alternative investment classes or any other kind of capital market competition. Furthermore, the GoE does not appear willing to provide any incentive for privatization targeting the general public. The reasons for its lack of commitment could be economic, political, ideological, and/or lack of adequate capacity.[15] *However, recent remarks of government officials indicate the potential introduction of a secondary market for bonds in the foreseeable future.*

A clear government policy and strategy for the development of a capital market would help in bringing confidence among the business community and the public at large. In this regard, the business community, through the chamber system, needs to continuously dialogue with the GoE to bring about this missing policy and strategy for the development of a capital market in Ethiopia.

Even if the government has not so far devised a strategy and policy for the development of capital market, feedbacks from the concerned institutions indicate that the GoE is considering the formation of a capital market.

The views of these institutions are that there is already a critical shortage of capital and, therefore, there is a need for the development of a capital market as a complementary source of capital for long-term financing in addition or as a substitute to the loans from the commercial banks. In the opinion of these bodies and as empirical evidences show, the economy requires additional access to finance as it is growing continuously at a fast rate. In addition, the macroeconomic situation over the last couple of years has been good and stable, and is expected to continue along that line in the coming years. These conditions, according to the sources, encourage the GoE to consider the development of a capital market in order to fill the gap of long-term capital requirements that arise due to fast economic growth.

As of recently, the sales of government bond have started. The feedback from stakeholders has revealed that they believe that the establishment of a government bond market initially is more feasible. It will help create some of the necessary preconditions for the establishment of a capital market. The sales of bonds in the market create the need for a supervisory authority as well as a formally established and regulated secondary market in order to facilitate transfers, fair and transparent pricing, and investor protection.

In 1995 the NBE was reported to have undertaken a study on the "Feasibility of Establishing a Securities Exchange Market" in Ethiopia, but at the time it did not get the endorsement of the GoE. In 2008, the NBE, once again,

[15] Double digit inflation numbers, low (5.5-6.0%) returns on government bonds and the absence of a rating do not support the potential commitment of the GoE regarding an establishment of a capital market because the government bonds effectively pay negative interest rates to the bond owners.

launched a "Capital Market Infrastructure Development Study" under the Financial Sector Capacity Building Project which is financed by the World Bank. It is believed that this latest initiative was based on some renewed interest from the GoE.

According to the opinions of some of the bodies concerned with the future plans of a capital market development, the critical preconditions for the creation of capital market have not yet been fulfilled. The accounting and auditing practices are rudimentary in Ethiopia, and the minimum requirements to establish effective supervisory and regulatory institutions are not yet in place. They, therefore, believe that the GoE's future strategy and policy should be to meet such preconditions prior to establishing a capital market, and subsequently start with a well-developed bond market to gradually create a full-fledged Ethiopian capital market. In addition, the authorities are careful to avoid any crises which may result from rushing into the establishment of a capital market, and would rather casually move forward by monitoring the world financial situation. Although the GoE has not yet introduced any strategy or policy in this regard, many believe that the above indicated approaches are in line with the potential strategy of the GoE.

3.1.2 Macroeconomic Conditions

It is the vision of Ethiopia to become a middle income country during the next one and half decades. According to the "Annual Report on Macroeconomic Developments"[16] of the Ministry of Finance and Economic Development during the fiscal years (2003/2004-2009/2010), the overall economic growth in real GDP was on average 11.3 percent. During the same period, the average growth in the service sector was 13.0 percent, 10.3 percent in agriculture, and 10.2 percent in industry. The growth rate by main industrial classification is provided in the table below.

[16] Report can be found at http://www.mofed.gov.et/Uploaded/document/Reports/Microdev/MEDR-EFY%202002-Annual.pdf

Table 3: Growth Rate by Main Industrial Classification (2003/04-2009/10)

Sector of Economy	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Average
Real Growth Rates								
Real Growth Rates	11.7	12.6	11.5	11.8	11.2	10.0	10.4	11.3
Agriculture	16.9	13.5	10.9	9.4	7.5	6.4	7.6	10.3
Industry	11.6	9.4	10.2	9.5	10.1	9.7	10.6	10.2
Services	6.3	12.8	13.3	15.3	16.0	14.0	13.0	13.0
Percentage Shares								
Agriculture	47.0	47.4	47.1	46.1	44.6	43.1	42.0	45.3
Industry	14.0	13.6	13.4	13.2	13.0	13.0	13.0	13.0
Services	39.7	39.7	40.4	41.7	43.5	45.0	46.1	42.3
GDP at Current Market Prices(Growth Rate)	18.0	22.9	23.6	30.6	44.4	35.1	14.3	27.0

The service sector was the largest sector of the economy in fiscal year 2009/10, accounting for 46.1 percent of the total, followed by agriculture with 42 percent and industry with a 13 percent share. The economy registered a real growth of 10.4 percent in 2009/10. This, according to MoFED, is one of the highest growths when compared to the average performance of 5 percent in the Sub-Saharan economies. The service sector, covering real estate, hotels, transportation, communication, banking, health, and education seems to make up over half of Ethiopia's GDP.[17]

An employment survey carried out by the Central Statistical Agency for the year 2009/10 revealed that urban unemployment has significantly decreased during the past seven years. Urban unemployment declined from 26.3 percent in 2002/03 to 18.9 percent in 2009/10.

[17] Access Capital, The Ethiopia Macroeconomic Handbook 2010

Table 4: Status of Unemployment of the Economically Active Urban Population (2003-2010)

[redacted]

Even though a decline in urban unemployment can be observed, the average duration of unemployment is quite high with 48 percent of the registered unemployment lasting longer than 12 months. Due to the high level of poverty, individuals seek some form of employment, even if not full-time. As a result, the informal economy is gaining in importance.

Since there is no national minimum wage, some government institutions and public enterprises set their own minimum wages. Public sector employees, who are the largest group of wage earners, receive a monthly minimum wage of about USD 25, while employees in the banking and insurance sectors have a minimum monthly wage of around USD 30. Only a small percentage of the population is involved in wage labour employment, which is mostly concentrated in urban areas. The maximum legal workweek is 48-hours.[18]

Though the Ethiopian economy registered double digit economic growth, it experienced macroeconomic challenges during 2006/07 to 2008/09 with inflation reaching record levels. General commodity prices surged for successive years. During the fiscal years 2006/07, 2007/08 and 2008/09, the general annual inflation rate was 15.8, 25.3 and 36.4 percent respectively. This was largely driven by the trend of food component price, which showed 21 percent annual average growth during the fiscal years 2003/04 to 2008/09.[19]

[18] eStandardsForum: "Country Brief Ethiopia 2009"
[19] MoFED, Annual Report on Macroeconomic Developments, 2009/2010

However, during the fiscal year 2009/10 the general inflation rate came down to 2.8 percent based on the tight monetary and prudent fiscal policy measures taken by the GoE.[20]

The crops grown are teff[21], barely, wheat, corn, sorghum, millet, oats, rice, tea, beans, cut flowers, potatoes, cotton, coffee and sugar cane. Gold, platinum, copper, potash, and natural gas are the major natural resources. Food processing, beverages, textiles, leather, cement and chemicals are the principal industries.

There are no country credit ratings (e.g. Standard & Poor´s, Moody´s, and Fitch Rating) available for Ethiopia. It has to be generally noted that macroeconomic conditions, e.g. hyperinflation or double-digit inflation and/or double-digit interest rate levels can be a significant impediment to capital market development.

3.1.3 Corruption and Transparency

Ethiopia has ratified the UN Convention Against Corruption, and the African Union Convention on the Prevention and Combating of Corruption. It is ranked 126th of 180 nations in Transparency International's 2008 Corruption Perception Index. This is an improvement from its ranking of 138th of 179 nations in the 2007 index. According to Transparency International, a score of less than 3.0 out of 10.0 indicates that there is popular corruption. Ethiopia's score is 2.6.

3.1.4 Business Environment

The country is ranked 116th of 181 in the World Bank's 2009 Ease of Doing Business Survey. This compares to a ranking of 109th of 179 in the 2008 survey. Ethiopia is ranked 118th in starting a business, 95th for employing workers, 123rd in getting credit, 78th in enforcing contracts, 154th in registering property, 113th in protecting investors, 37th in paying taxes and 74th in closing a business. With respect to the World Bank's governance indicators, it performs below average. It is ranked at the 19.8 percentile for regulatory quality, and it is at the 33.5 percentile for rule of law. Ethiopia is ranked 121st of 141 in the Fraser's Institute Freedom of the World Index, 91st of 122 in the Milken Institute Capital Access Index, 134th of 141 in the UNCTAD Inward Potential Performance Index for 2004-2006, 133rd of 179 in the Heritage Foundation's Economic Freedom Index and 121st of 134 in the World Economic Forum's (WEF) 2008-2009 Competitiveness Index.[22]

[20] MoFED, Annual Report on Macroeconomic Developments, 2009/2010, p.13
[21] Teff is a species of lovegrass native to Ethiopia and an important local nutrition source
[22] Own research and eStandardsForum: "Country Brief Ethiopia 2009"

The personal income tax rate is progressive and ranges from 10 to 35 percent. The corporate tax rate is progressive and ranges from 10 to 35 percent, with a flat tax of 30% on incorporated businesses (e.g. private limited companies [PLCs] or joint stock companies [JSCs]). The 15 percent Value Added Tax is levied on those companies whose turnover is above ETB 500,000 per year. The capital gains tax (e.g. dividends from a JSC or withdrawals of profits from a private limited company) is 10 percent and the tax on interest income is 5 percent.[23]

3.1.5 Foreign Investment

The government encourages foreign investment in order to spur growth, employment and exports. Generous incentives such as a five-year tax break for manufacturers and investors in agro-industrial activities who export at least 50 percent of their products are offered to foreign investors. There are also duty free allowances for the import of machinery. In 2002, the minimum capital requirement for wholly foreign owned investments was lowered from USD 500,000 to USD 100,000. There is no restrictive visa, residence and work permit requirement. Foreign companies do not face any discrimination with respect to tax treatment, denial of licenses, import or export policies, and tariffs. Foreign investors can freely remit profits, dividends, principal and interest on foreign loans, fees related to technology transfer and proceeds from the liquidation of a business.

Non-residents can open foreign currency accounts. Assets of a domestic or foreign investor can be nationalized in cases of "*public interest*" and in accordance with a court order. Fair and adequate compensation must be paid for any property that is nationalized. There have been no recent examples of nationalization. There is no right of private ownership of land. All land is owned by the state. Businesses can lease land for up to 99 years. The government provides land at low lease rates for priority exports such as floriculture, leather goods, textiles and garments and agro-processing.[24]

Foreign exchange reserves are relatively low, and as a result foreign investors have experienced difficulty in obtaining foreign currency. The judiciary is poorly staffed and inexperienced in commercial cases. According to the US State Department Investment Climate Statement, "*There is no guarantee that the decision of an international arbitration body will be fully accepted and implemented by Ethiopian authorities. The Embassy routinely advises investors to specify that disputes will be settled by arbitration either in*

[23] Ethiopian Revenues and Customs Authority, http://www.erca.gov.et/others.php
[24] eStandardsForum: "Country Brief Ethiopia 2009"

Ethiopia (the AACCSA runs an arbitration centre) or abroad due to the lack of experience of domestic courts." SOEs receive government preferences with respect to foreign exchange allocation, access to credit, preferences in government tenders, and marketing assistance that makes it hard for private companies to compete. There is lack of skilled labour, the infrastructure is inadequate, and the manufacturing sector is modest.[25]

Yet, the GoE will need to re-evaluate its position on foreign investment as Ethiopia is in the process of WTO accession.

3.1.6 Stakeholder´s Opinions about the Current Situation

A number of selected stakeholders (see Annex II) from a cross-section of the private sector actors (companies, project promoters, and associations), the public sector and academics were contacted in order to gather opinions about the potential shortcomings of the current share trading and the expectation from a capital market development in the country.

The opinion of these stakeholders on both issues is more or less similar and indicates the following:[26]

- "The interest of the public is high in regard to the current share issuing activities."
- "A number of private share companies have already been established and there are others under formation with sales of shares to the public."
- "There is no regulatory framework for sales of shares and this is posing serious risk."
- "As a result of the absence of a regulatory body and a framework, the share buying public is not protected and there are already some indications of malpractices by some share companies that sell shares."
- "There is a need for capital market in Ethiopia as an alternative source of long term finance to the PSD."
- "Empirical evidence shows the economy is growing and therefore requires more financing sources and a capital market can fill such a gap."
- "There is potential for a capital market in Ethiopia and its establishment is long overdue."
- "Huge capital is required for the country's Growth and Transformation Plan (GTP) and the existence of a capital market could raise long-term financing required."

[25] eStandardsForum: "Country Brief Ethiopia 2009"

[26] Note: Stakeholders opinions can reflect their belief in a demand for a domestic capital market as being proponents of such a capital market. These opinions do not express an analytical evaluation and might or might not always be in line with the opinion of the author of this study.

- "Capital market would be a good means to raise capital for new emerging companies and the development of the private sector in general."
- "There could be sufficient number of companies that are liquid and interested both in the public and private sectors to be listed in the secondary market to launch a capital market."
- "As the private sector is expected to play critical and leading role in the country's economic development plan, a capital market is crucial to raise the required finance for its growth."
- "Although the public is currently buying shares in the primary market their money is tied up as transferring is difficult because of the absence of a secondary market."
- "Current shareholders in share companies who want to transfer their shares for one reason or another can only do it if a capital market exists."
- "As the GoE has now launched the sales of corporate and saving bonds to the public there is again a need for a secondary market to facilitate transfers when needed."
- "The development of a capital market would be challenging as the financial sector is just evolving in the country."
- "Establishment of a regulatory body and putting in place the required bylaws are important prerequisites before launching any capital market establishment."
- "Preconditions like capacity building and awareness creation should be made before launching a capital market to avoid any risk that may come with it."

As observed from the opinion of stakeholders, there is unanimity regarding the need to establish a capital market in the country. Their opinion is based on the importance of raising long-term finance for PSD, in order to enable easy transfer of shares when required and for the overall economic development of the country in general. Some also emphasize putting in place of a regulatory body and its mechanism, as well as other prior conditionality in the form of capacity building, awareness creation among the business community and the public in general.

3.1.7 Potential Key Actors for the Establishment of a Capital Market

Possible key actors for the establishment of a capital market in Ethiopia are:

- GoE;
- Ministry of Finance and Economic Development (MoFED);

- Ministry of Trade (MoT);
- Ministry of Industry (MoI);
- NBE (in its role as a central bank);
- Banks (as intermediaries, issuers and investors);
- Big five SOEs (representing potential public issuers);
- Privatization and Public Enterprises Supervision Authority (PPESA);
- Investors (private and institutional, e.g. insurance companies);
- Accounting and Audit Boards;
- Donors (e.g. African Development Bank [AFDB]); and
- Ethiopian Commodity Exchange (ECX).

Although the GoE and the Administration (e.g. MoFED, MoT, MoI) could be seen as one target group, it is suggested that they be taken to accept them as two different key actors, since there might be key persons in the Administration who may like the idea of a capital market, but would not officially commit to it and since there are different needs for these target groups.

The NBE, as the central bank, will play a key role in the establishment of an Ethiopian capital market. Even though the NBE can be seen as a part of the GoE, it has to be addressed individually. Likewise, the state-owned banks could play multiple roles as intermediaries, issuers and investors in the future. Private banks will be much more in favour of the establishment of a capital market, but nevertheless, they have to be treated with equal care.

Representatives of the big five SOEs should be attracted as well for they represent not only the biggest local companies, but also could be future issuers and/or even underwriters for financial instruments (e.g. derivatives).

Additionally, a representative of institutional and private investors should all be identified. Institutional investors could be represented by banks, or even better, by insurance companies. Private investor representation will be difficult; since as a sector they are not yet acting in any organized manner.

A potential key actor for the establishment of a capital market is the ECX. Although the ECX has not been serving the financial sector, it has proven to be a success story and – although not serving the financial sector – the experiences learned should be reflected thoroughly before “reinventing the wheel”.

The research and educational institutions as well as the press (e.g. Capital and Fortune) are key actors as opinion builders and multipliers in order to establish a capital market of a good repute. The roles of PPESA, chambers, National Accounting and Audit Board (NAAB), and Ethiopain Professional Association of Accountants and Auditors (EPAA) are self-explanatory.

3.2 Conditions of Legal and Regulatory Infrastructures

The satisfaction of all the following six conditions (the regulator and securities enforcement, adequacy of judicial system, accounting and auditing standards, Corporate Governance (CG), takeover and merger regulation, and bankruptcy and insolvency law) should be viewed as essential for the development of a capital market.

Prior to its abolition in 1974, there was a small share trading activity in Ethiopia carried out by a Share Dealing Group under the auspices of the NBE between the 1950s and 1970s. Since then there has never been any securities market activity in the country. As a result, there are no institutions in place that run or regulate such an activity. Neither is there any separate legal framework.

The Share Dealing Group used to be supervised by the NBE. Its activities were also governed by the Commercial Code that was put in place in the 1960s and which is still the basic legal instrument for establishing and running business activities in the country. These institutional and legal framework arrangements, however, cannot act as bases for a capital market operating according to international best practices and standards.

In general, there is no institutional, legal and policy framework for any capital market activity in the country. The absence of such framework will definitely be an obstacle for launching a capital market in Ethiopia. It is therefore crucial that this framework is put in place prior to the launching of a formalized capital market. Lack of trained human resources could also be a serious obstacle in running and managing a securities market, and security market activities in particular. These obstacles for capital market operation should be overcome once a decision is reached to launch the market.

The institutional arrangements for both regulation and operation could be based on the experience of the ECX, where a separate operational body and regulatory authority are well in place. Similarly, the human resources required for the operation of both institutions need to be selected, oriented and trained in advance. Again, the experience of ECX could be used in this regard.

With respect to legal aspects, rules and regulations secondary legislation and bylaws also need to be developed. In 1999, the Ethiopian Share Dealing

Group (ESDG) initiated a study of such legal aspects and selected a consultant (Ernst & Young) which undertook a study and developed standard rules and regulations manuals as well as appropriate bylaws. These documents could be updated and revised.

3.2.1 The Regulatory and Securities Enforcement

As there is no specific regulation of capital market and related activities in the country, no assessment of strengths and weaknesses with emphasis on the regulator's independence, objectivity, integrity, and enforcement capability can be provided.

In order to establish a fair, orderly, transparent, and well-regulated capital market in which investors will be willing to place their confidence, it is absolutely necessary that the integrity and effectiveness of the regulator enforcing security laws is confirmed by the market participants. All personnel of the regulator shall be subject to a code of conduct or ethics.

3.2.2 Adequacy of the Judicial System

The most important provision regarding share issuing and trading is the 1960 Commercial Code of Ethiopia. The Commercial Code is not up-to-date and has many grey areas. Addis Ababa Stock Exchange Rules and Regulations Manual (Volumes I and II) were prepared in 1999. However, it is at a working draft level and not up-to-date.

There is no system of civil courts where securities cases can be prosecuted by a dedicated governmental authority. There are no specific training programs to educate prosecutors and judges on capital market regulation, including corporate governance. There are commercial courts that specialize in hearing commercial cases, but there are no courts that specialize in hearing only securities law and company law cases. There are provisions in the jurisdiction's laws that may be used to prosecute securities violations, pyramid and Ponzi schemes.[27]

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[27] A Ponzi scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors and to use for personal expenses, instead of engaging in any legitimate investment activity.
http://www.sec.gov/answers/ponzi.htm

Exhibit: Laws and regulations regarding ECX[28]

ECX's was established by Proclamation No. 550/2007. This proclamation mandates ECX to develop its own rules for the governance of its various operations. Furthermore, the Ethiopian Commodity Exchange Authority (ECEA), a regulatory body of the ECX, was established by Proclamation 551/2007. The Rules of the Exchange developed by ECX provide the blueprint for all rules governing membership, management, trading, warehousing, clearing and settlement, and other operations of ECX, in addition to the conduct of its members. Additionally, there are three amendments, Amendment Nos. 3, 4 and 5.

ECX maintains a careful approach to monitoring and tracking the adequacy and performance of its members as well as their behaviour vis-à-vis their clients in the market. In line with global best practices, ECX experts regularly conduct surveillance on market trends and conduct audit and investigations on market operations to protect the market from manipulation, excessive speculation, fraud, or other malpractices.

The ECEA has the power and duties to extend recognition and oversight of Exchange Actors (members and their representatives), recognition and oversight of Clearing Institutions (domestic banks or other financial institutions engaged in clearing and settlement of payments), oversight of the Rules of the Exchange and regulation of Exchange-traded contracts, as well as regulation of the conduct of investment advisors, consulting companies, law practices, accounting and audit professionals, as this conduct relates to ECX business. In addition, the ECEA has the power to investigate wrongdoing and adjudicate cases falling under its jurisdiction or to refer criminal cases to the appropriate court. As part of its oversight, the Authority issues directives regarding the various key areas.

3.2.3 Accounting and Auditing

Though accounting and auditing standards have been improving in Ethiopia, they are not yet at an internationally acceptable level. With the National Accounting and Audit Board governing the nation's accounting and audit practice, and issuing certificates and accreditations for audit and accountancy firms by observing the quality and standards of financial reporting in the country as well as the adoption of the International Financial Reporting

[28] ECX

Standards (IFRS), accounting and auditing standards should improve in the near future. Additionally, the Association of Chartered Certified Accountants (ACCA) is most recently focusing on IFRS. The NBE has already developed a guideline for standard financial reporting and has trained its staff in this regard. What the NBE is now waiting for is the enactment of the proclamation into law.[29]

Reliable and relevant accounting information is critical for making investment decisions. As a result of fair value accounting, the value relevance of financial statement numbers in emerging markets has improved in recent years. The gap between market value and book value has narrowed over time. The International Accounting Standard Board (IASB) conceptual statement also raises key issues that relate to accountability, capital maintenance, measurement reliability and valuation. By the end of 2009, IFRS has been in use in more than 100 countries.

IAS 29-Financial Reporting in Hyperinflationary Economies provides for companies located in environments where high inflation is a norm, and it might therefore be relevant to Ethiopia in the future as well. The main idea behind IAS 29 is that the financial statements of an entity that reports in the currency of a hyperinflationary economy should be restated using general price index or replacement costs, and gains or losses on net monetary position should be recognized in the comprehensive income statement. The standard allows management to use its judgment as to when restatement of financial statements becomes necessary.

IAS 21-The Effects of Changes in Foreign Exchange Rates is another relevant standard. Its aim is to provide for foreign currency transactions, foreign operations and translation of financial statements into parent company currency. It separates transaction risk from translation risk. It prompts management to disclose the method(s) used for hedging each type of risk. The consolidating entity is also required to define its functional currency. IAS 21 requires that companies first restate the financial statements using general price level indices or replacement costs, and then translate the local currency into parent company (presentation) currency. This requirement has the potential to make global companies double count the effects of inflation. This matter is relevant for both foreign investors and Diaspora investors who want to hedge the risk of investing in their home countries.[30]

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[29] The introduction of IFRS is remarkable so far, as those standards are used by exchange listed companies and Ethiopia has no capital market so far.

[30] Minga Negash, Heineken´s Bid for Ethiopia´s Breweries, in Ethiomedia.com, 2011

As there is no public offering and listing, there are currently no detailed requirements in place regarding publicly available annual reports of "public" joint stock companies, including their form, preparation and presentation in accordance with a comprehensive body of accounting standards to ensure market transparency.

3.2.4 Corporate Governance

The overall standard of corporate governance is low. More specifically, the legal and constitutional instruments do not provide an adequate regulative framework, key international conventions and standards are not ratified, investor and creditor protection laws are inadequate, and the absence of an organized capital market is a remarkable deficit and contributes to a lack in transparency. However, recent developments prove an emerging commitment to corporate governance standards and a corporate governance code is expected to be introduced in the near future.

3.2.5 Takeover Regulation

The country does not have legislation that covers takeover bids and /or mergers.

3.2.6 Bankruptcy and Insolvency Law

The bankruptcy/insolvency process permits some resolution of creditor claims.

3.3 Current Market Conditions

The critical mass of issuers and investors, or at least the potential for their development, is necessary for a successful development of a capital market. This section is designed to enable the reader determine the current significance and financial viability of a capital market and other markets that may affect the development of a capital market, the potential issuer base, and the potential investor base.

3.3.1 Types of Regulated Markets in Existence

The only market in existence is the primary government bond market. There is no secondary bond market and there is no primary as well as no secondary securities market. However, recent remarks of government officials indicate the introduction of a secondary market for bonds.

3.3.2 Securities Issued and Traded

The Government Bond (Treasury Bill[31]) Market is the only active primary money (not capital) market in the country. Tenders are offered periodically by the NBE. The government offers 28 day, 91 day and 182 day bills. Interest rates are negative in real terms. Of the total outstanding bills, the majority is held by banks.

According to the Development Bank of Ethiopia (DBE), the following bonds are on sale:

- 2000 Millennium Bond - for sale to the Diaspora by the Ethiopian Electric Power Corporation. This bond sale has been going on since the new Ethiopian millennium over 2 years ago.
- DBE corporate bond to CBE – so far sale of ETB 1.5 billion.
- Ethiopian Government Saving Bond, including ETB 82 billion, for the Great Renaissance Dam Project, and ETB 11 billion for the regular DBE bond.

Besides the financial products mentioned here, no other financial products are officially traded.

3.3.3 Private Placements

Also known as non-public offerings, private placements are the approach of selling securities to some type of institutional and/or qualified investors, without offering those securities for sale to the investors (investing public) in general. As these private investors must be institutions, or at least "qualified private investors" rather than individuals, this means that banks, insurance companies, pension funds, and other incorporated entities are invited to participate in this type of sale. Until now, there are no official domestic private placements in the country.

3.3.4 Profitability of the Market

As there is no regulated and well-functioning capital market in place, no assessment on the profitability of the market, market participants and cost burdens can be made. However, given the restricted number of issued debt instruments and bearing in mind the limited potential investor and issuer base, one can come to the coherent conclusion that the profitability of a local capital market is to be seen critically.

[31] A short-term debt obligation backed by the government with a maturity of less than one year. T-Bills commonly have maturities of one month (28 days), three months (91 days) or six months (182 days).

3.3.5 Potential Investor Base (Demand Side)

Ethiopia is a country with a population of more than 80 million people and a rather large and active Diaspora of approximately 1 to 1.5 million.[32] As the average household income is very low, people do not have lots of assets to save or even invest. And if Ethiopians are able and willing to invest domestically, they only have very limited possibilities. Besides putting the money under the pillow, potential investors can put their assets into savings accounts (current return 5%), government bonds (current return 5.5%) and/or venture capital. *As the inflation rate is much higher than the return of the savings account and the government bonds, local investors currently do not have an adequate investment possibility to achieve returns higher than the current inflation,* with the exception of direct investment in the form of (unregulated) venture capital. This is a strong indicator for the theoretical demand of alternative investment opportunities, such as equity securities.

Regarding venture capital, it is remarkable to see that there are a number of share companies under formation which do not even provide potential investors with a business plan. However, this investment trend seems to be quite popular. The targeted capital of share companies under formation is ETB 6 to 10 billion[33] (approximately USD 350 to 590 million) and one local capital services firm managed to collect approximately ETB 500 million (approximately USD 30 million) within a period of three years.

Additionally, Ethiopian banking is currently booming. Financial results for the 2010 fiscal year show a high growth, high profits, and high dividends. Even in the midst of a challenging environment, all key areas of banking operations showed growth of more than 20 percent. Profits were up 45 percent and shareholders (at banks established for longer than one year) received an average return of 27 percent on their investments.[34] This development is very important for the demand side as banks are not only intermediaries but can be substantial institutional investors on the domestic market.

Remittances of approximately ETB 6.7 billion (USD 390 million) and FDI of Birr 1.7 billion (USD 100 million) support the demand side as well. Although this might indicate an interesting and promising potential investor base, one has to realize that the given numbers do not necessarily imply a liquid

[32] The Ethiopian Diaspora must not be underestimated. Mobilizing Ethiopians living abroad for the development of the country has shown significant success in the past and indicates that this group could be a very important participant in the capital market.

[33] In December 2010, 22 share companies targeted ETB 5.9 billion and an estimated number of 20 additional companies were looking for capital as well. Source: Access Capital, Banking Sector Review 2010

[34] Access Capital Banking Sector Review 2010

capital market. In many jurisdictions, for example Poland, pension funds are significantly driving liquidity and are among the most important capital market players.

3.3.6 Potential Issuer Base (Supply Side)

The potential issuer base is supported by expected infrastructure projects (e.g. the Great Renaissance Dam)[35], long-term capital need by private corporations, PPESA is planning to collect a total of approximately ETB 2.5 bn. (approximately USD 147 M) throughout the next five years, the share companies under formation targeted capital is about ETB 6 to 10 bn. (approximately USD 350 to 590 M), and that there still is – at least theoretically – the possibility of SOEs to be (partly) privatized over the next couple of years.

The only issuer of debt instruments at this point of time is the GoE. There are no corporate bonds. Annual regular infrastructure needs for a country like Ethiopia (not including special projects like the Great Renaissance Dam) are expected to be between ETB 41 billion (USD 2.4 billion.) and Birr 53 billion (USD 3.1 billion.), creating a potential for a remarkable and sustainable government bond supply.[36] Equity products are not issued at all. The reason is that the GoE is privatizing companies only via tenders to selected investors and not to the general public. Large SOEs like the CBE, Ethiopian Air Lines, Ethiopian Electric Power Corporation, Ethiopian Insurance Corporation, and Ethiopian Telecommunications are not subject to privatization at all. These companies are crucial in establishing a local capital market as they have the critical size to create liquidity and are also well known by the general public. However, Ethiopian Airlines was the only Ethiopian company among the top 500 companies in Africa in 2010[37]. This implies that a local secondary equity market could face a very small awareness and overall exposure among potential investors anyway.

The Big Five Ethiopian Companies (all SOEs)

- Commercial Bank of Ethiopia.
- Ethiopian Air Lines (Rank 129th in Africa).
- Ethiopian Electric Power Corporation.
- Ethiopian Insurance Corporation.
- Ethiopian Telecommunications.

[35] According to the WB, infrastructure needs for less developed countries are at 7-9% of GDP, but public spending is only 2-4%; the resulting gap is 5% of the GDB, equaling ETB 29 bn (approximately USD 1.7 bn). This is not including the capital demand for the Great Renaissance Dam.

[36] According to the WB, infrastructure needs for less developed countries are at 7-9% of GDP.

[37] The Africa Report, http://www.theafricareport.com/rankings/top-500-companies.html

According to PPESA, which is the autonomous agency charged with the responsibility of assisting SOEs to achieve commercial viability before selling or leasing them to private investors and other officials of the GoE there is no plan for a voucher or share privatization. In relation to the market potential assessment of a capital market in Ethiopia, this is a very disappointing development as there are over 70 SOEs with an estimated value of ETB 2.5 bn. (approximately USD 147 M) to be privatized throughout the next five years – see Annex IV).

Table 5: Twenty Selected PPESA Enterprises with High Paid-up Capital

Company	Sector	Paid-up Capital (ETB)	Paid-Up Capital (USD)
Ethiopian Petroleum Enterprise	Trade	300,000,000	17,595,308
Mugher Cement Enterprise	Cement	266,727,000	15,643,812
Ethiopian Shipping Lines	Transport	205,233,000	12,037,126
Comet Transport Enterprise	Transport	204,823,000	12,013,079
Tabor Ceramics Factory	Construction	171,876,000	10,080,704
Bedele Brewery Factory	Brewery	163,254,000	9,575,015
Agr/Equ. and Technical Service	Agriculture	149,786,000	8,785,103
Combolcha Textile Factory	Textile	149,547,000	8,771,085
Akaki S/Parts & Handtools	Metal	142,298,000	8,345,924
Ethiopian Mineral Development	Mining	128,525,000	7,538,123
Ethiopian Pharm. Manufact.	Pharmaceuticals	122,963,000	7,211,906
Blue Nile Construction	Construction	120,590,000	7,072,727
Educational Materials & Production	Printing	114,948,000	6,741818
Awash Melkassa Al.Sulfate	Chemical	94,519,000	5,543,636
Hamaressa Edible Oil Factory	Food	81,490,000	4,779,472
MEWIT	Trade	50,000,000	2,932,551
Coffee Plantation Development	Food	48,102,000	2,821232
Ghion Hotels Enterprise	Hotels & Tourism	19,241,000	1,128,504
Procurement Service	Service	11,016,000	646,100
Ethiopian Tourist Trading	Hotels & Tourism	10,234,000	600,235

Source: PPESA

Unless the GoE is prepared to at least partly sell shares of some large and popular SOEs to investors and as long as the GoE is not willing to change its existing privatization procedures, there will not be a qualified potential of sustainable liquidity for a local secondary stock market.

Table 6: Share Companies under Formation

Company Name	Target Capital (ETB)	Target Capital (USD)
Hiber Sugar*	1,000,000,000	58,651,026
Ayat*	660,000,000	38,709,677
Habesha Cement*	600,000,000	35,190,616
Haset Supermarket	600,000,000	35,190,616
Debub Global Bank*	300,000,000	17,595,308
Enat Bank*	300,000,000	17,595,308
Hawassa Bank	300,000,000	17,595,308
Habesha Breweries*	250,000,000	14,662,757
Raya Brewery	250,000,000	14,662,757
Ardi International Logistics	200,000,000	11,730,205
Habesha Construction Materials and Development*	200,000,000	11,730,205
Alliance Transport Services*	150,000,000	8,797,654
Dalol Oil*	150,000,000	8,797,654
Hagere Construction Share Company	150,000,000	8,797,654
Timiret Agro Industry*	150,000,000	8,797,654
Crystal Tannery*	100,000,000	5,865,103
Gutu Oromia Business S.C.	100,000,000	5,865,103
Jacaranda Integrated Agro-Industry*	100,000,000	5,865,103
Sylvia Pankhurst Memorial School	100,000,000	5,865,103
International Cardiovascular Hospital*	50,000,000	2,932,551
Sheger Metro Taxi*	50,000,000	2,932,551

* These companies were under formation by the end of 2010 and have been established in the meantime.

Source: Access Capital Banking Sector Review 2010

3.3.7 Demand Size

Complementary to the assessment of the demand side (see 3.3.5 Potential Investor Base) and the supply side (see 3.3.6 Potential Issuer Base), it can be said that the demand size is huge, depending on the design of the Ethiopian capital market, the level of government commitment, and the legal, regulatory and economic environment. But most importantly *there is and will be sustainable demand for long-term capital in the country, which may already justify the implementation of a securities (in particular a bond) market.*

It has to be noted that the level of market liquidity is considerable based on the stage of development. Initially, the Ethiopian capital market may operate locally to match local supply and demand of capital, gradually developing into a regional and international market place for securities driven by increasing market demand and need for capital by Ethiopian companies to support expansion and economic growth.

Specific Reasons for a Sustainable Demand of Capital Market

- Large and sustainable infrastructure needs (e.g. Great Renaissance Dam).
- Interest rates are negative in real terms; savers effectively lose money and look for alternative investments.
- Institutional and private (not public) financing is exclusively credit based; there is no alternative way of financing (e.g. risk capital like stocks).
- Some banks face serious problems with their outstanding credit portfolios (not performing or defaulted loans); receiving credit will subsequently become more difficult in the future.
- Ethiopian companies are in need of long-term capital to finance their growth.
- Ethiopian institutional as well as private investors are interested in attractive investment opportunities.

The establishment of a capital market – especially of a secondary market – will facilitate the *buying and selling* of securities at a market price, thus creating and publishing a market opinion on the value of the exchange traded financial instruments and supporting fair pricing in a well regulated environment. Furthermore, enhanced capital mobilization, flexibility in corporate finance and the support of transparency and efficiency in the financial system might be highly appreciated by the GoE and the Ethiopian market participants.

3.3.8 Fraudulent Investments and Unregulated Markets

There are no significant and/or remarkable fraudulent markets in existence. There is some kind of unregulated – not a fraudulent (!) – market regarding share companies under formation.[38] As there is no regulated capital market in the country, investors in those share companies who want to close their transaction, will face a pricing and liquidity problem. *As a result, share buyers might have to close their investment at an entirely unfair price, resulting not only in a personal loss of assets but also in a significant loss of market trust*

[38] Financial share companies (under formation) are regulated by the NBE, non-financial share companies (under formation) are regulated by the 1960 Commercial Code.

and future capital market reputation. It does seem surprising that the GoE has not put dedicated restrictions on the share companies under formation.

3.3.9 Financial Literacy

Financial literacy is the ability to understand finance, and more specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through the understanding of finances; and it is the sound foundation for every capital market. As financial literacy seems to be rather poor in the country, there is a strong and immediate demand to support financial literacy as soon as possible. Financial literacy is understood to be a key element in market liquidity. It is therefore of utmost importance and treated as a core element of *s*trategy and measures for the establishment of a capital market in the following chapter.

3.3.10 Summary

Reactions of the stakeholders interviewed about the potential of a capital market in Ethiopia ranged between "nothing else than legalized casino" and "long overdue". This bandwidth is mainly a result of specific interest, emotional relationship and level of financial education. It also reflects the lack of awareness and level of conflict which policy and decision-makers are facing in this regard. Furthermore, it mirrors the heterogeneity between the groups in favour and against the establishment of a capital market in Ethiopia. Regardless of the positions of stakeholders for or against the establishment of a capital market in Ethiopia, there are always the same set of key factors in place regarding preconditions, market trust, and potential liquidity. Based on the received feedback one can summarize that there is and will be a sustainable demand for long-term capital in the country, which already may justify the implementation of a securities (in particular a bond) market.

Opportunities and Threats Analysis

The examination of internal and external environments (referred to as the analysis of strengths, weaknesses, opportunities and threats) is a substantial part of the strategic evaluation and planning process. At this stage, the analysis is focused only on environmental factors external to the project; and the factors are classified as opportunities and threats. Environmental factors internal to the project, classified as strengths and weaknesses, can be analyzed after the market potential assessment for the establishment of an Ethiopian capital market.

Table 7: Opportunities and Threats

Opportunities	Threats
• The agenda of poverty eradication turned into a national growth and transformation plan[39] • Macro-economic development is positive[40] • Economic growth and human development is increasing consistently[41] • Capital market provides services to the economy that are crucial for long-term economic development.[42] • 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.[43] • Ongoing and future privatizations stipulate additional capital needs[44] • Efficient stock pricing through competition and market • The current (end 2010) targeted capital of share companies under formation in Ethiopia equals approx. 6 billion ETB (approximately USD 350 M)[45] • Capital market promotes PSD • PSD is seen to be crucial for the economic development of the next five years[46] • De-concentration of ownership could be seen as a democratic measure by the GoE • Accession to WTO • Capital market increases liquidity by supporting the placement of government bonds • Capital market mobilizes local savings • Capital market could increase remittances as an additional capital to FDI • Capital market leads to transparency	• High level of poverty • Future (volatile) macroeconomic and political environments can affect market liquidity • Legal[47], regulatory, accounting, tax, and supervisory systems influence stock market liquidity • Lack of awareness and willingness among Ethiopian policymakers[48] • Ethiopian banks have an oligopoly position in the financial system which needs to be broken by a securities market • Ethiopian banks are highly reliant on loan income[49] • Poor savings culture • No access for foreign investors and financial institutions, and therefore less flow and international awareness • African stock markets are generally small, illiquid, with infrastructural bottlenecks and weak regulatory institutions • Lack of liberalisation of the financial sector • Low implementation capacity on the part of the government • Serious demand in knowledge , training and education • Some of the potential market participants see the private sector as weak, disorganized, short-term oriented, emotional and non-systematic • Capital market enhances bank competition

39 The MoFED has coordinated the design and implementation of a Sustainable Development and Poverty Reduction Program (SDPRP), which covered the years 2002/02 to 2005/05 and a Plan for Accelerated and Sustained Development to End Poverty (PASDEP) that ran from 2006/06 to 2009/10. During these periods remarkable achievements of economic growth, social development and good governance were registered. On the basis of the experiences gained so far, a Growth and Transformation Plan (GTP) has been prepared with clear targets, including the strengthening of the private sector development.

40 The "Annual Report on Macroeconomic Developments EFY 2002 (2009/10)" of the MoFED shows a growth rate in real GDP of an average 11.3% between the fiscal years 2003/4 and 2009/10. Actually Ethiopia is one of the fastest growing economies of the world.

41 Human development is assessed in three dimensions (a long and healthy life, access to knowledge and a decent standard of living), and is reflected in the Human Development Index (HDI). According to the 2010 Human Development Report Ethiopia's HDI value increased from 0.250 to 0.328 between 2000 and 2010, an increase of 31%.

42 Compare "Stock Markets: A Spur to Economic Growth" by Ross Levine in Finance & Development, 1996.

43 "Stock Markets: A Spur to Economic Growth" by Ross Levine in Finance & Development, 1996.

44 According to the Ethiopian Privatization and Public Enterprises Supervision Authority about 70 companies will be privatized through the next five years generating an estimated minimum income of 500 million Birr per year.

45 "Research Highlights, Banking Sector Review 2010" by Access Capital, December 2010.

46 This is strongly indicated in the GTP, which has been adopted by the Council of Ministers and the House of People´s Representative as the national planning document of the country for the period 2010/11 to 2014/15.

47 See "Making Finance Work for Ethiopia" by Thortsen Beck, James A. Hanson and Samuel Munzele Maimbo, 2008.

48 The idea of a capital market is not new to Ethiopia and numerous studies referring to the establishment of such a market have been conducted since 1995. Most recently, though, the NBE has included the analysis of CM infrastructure development in the overall "Financial Sector Capacity Building Project" (FSCBP) study financed by WB.

49 "Research Highlights, Banking Sector Review 2010" by Access Capital, December 2010.

4. ROAD MAP DEVELOPMENT

As outlined under "Justifications for the Creation of a Capital Market" in Section 2.2., the main reward of an effective capital market is economic growth combined with private sector development, liquidity increase, local savings mobilization, financial diversity development, remittances increase, corporate governance improvement, and many others. In line with the current GTP, the establishment of a capital market in Ethiopia makes perfect sense, even if it is only an effective marketplace for debt instruments excluding equity securities under a short-term perspective.

4.1 Strategy for the Establishment of Capital Market

4.1.1 Nature of the Strategy

The first duty of the GoE is to protect its citizens. The government has therefore the obligation to uphold the public good, providing measures against all kinds of threats. Financial fraud constitutes one such threat. Financial fraud is a situation in which the legal and ethical management of financial resources does not take place. In most countries around the world, this type of fraud occurs due to deliberate decisions and actions made by people who handle money and other assets on behalf of employers or clients. And in most cases, the fraudulent handling of financial resources will lead to substantial losses for an investor or a corporation.

Thus, in order to serve the number one priority, i.e. market trust and integrity, the GoE should be encouraged to incorporate the necessary legal and regulatory conditions that protect investors from financial fraud as soon as possible. *The strategy for the establishment of a capital market in Ethiopia should, therefore, permanently focus on investor protection with the target of establishing a financial services authority as a unit within the NBE as the first step towards a capital market in the country. Only this approach assures a maximum awareness and acceptability on the part of the GoE, even if the GoE is not willing to establish a capital market in the near future. Focusing on investor protection supports the credibility of capital market proponents as well since the proponents could underline their social responsibility and long-term orientation.*

4.1.2 Elements of the Strategy

- *Outcome-oriented.* The establishment of a capital market in Ethiopia is the desired outcome of the strategy. All initiatives in the strategy must serve that end.
- *Balanced and realistic.* Establishing a capital market in Ethiopia requires a multi-faceted, balanced program. One cannot hope to establish a capital market by relying exclusively on one approach in a short period.
- *Long-term and continuous.* There can be no short-term solutions to the lack of a capital market in Ethiopia. The approach must be mid to long-term, and especially continuous.
- *Wide-ranging.* The project of establishing a capital market in Ethiopia should include as many stakeholders as possible.
- *Introspective.* If the strategy is to be dynamic and successful, it must incorporate a self-assessment process. Capital market proponents must measure objectively the progress or failure of a capital market project and modify tactics accordingly.

4.1.3 Establishment of National Capital Market Dialogue Forum

The strategy for the establishment of a capital market in Ethiopia has to be a joint effort represented in the yet to be organized "National Capital Market Dialogue Forum", including an operational working group devoted to capital market and financial sector development issues. The following potential key actors for the establishment of a capital market could be represented in this forum:

- GoE;
- Administration (e.g. MoFED, MoT, MoI);
- NBE (in its role as central bank and potential capital market regulator);
- Banks (as intermediaries);
- AACCSA
- Big five SOEs (representing potential public issuers);
- PPESA;
- Ethiopian Chamber of Commerce and Sectoral Associations (representing private issuers);
- Investors (private and institutional, e.g. insurance companies);
- Accounting Associations and Audit Boards (e.g. ACCA, EPAA; NAAB);
- The Press;
- Research Institutions (e.g. Universities);

- Donors (e.g. AfDB,IFC);
- ECX; and
- Others.

The national capital market dialogue forum should be inaugurated as soon as possible and could start with the validation and confirmation of an immediate action plan later this year (2011). There should not be a particular limitation for membership at the forum as it is seen as a comprehensive syndicate for all stakeholders interested in the establishment of a capital market in Ethiopia. The forum shall meet at least quarterly where the working group presents the latest developments in its assignment. If possible, donor-funding should be secured to ensure and finance the provision of external expertise as far as needed.

4.1.4 Appointment of a Working Group on Capital Market Development

The "National Capital Market Dialogue Forum" shall appoint a "Capital Market Working Group" in order:

- To elaborate, consolidate, and build on the consensus of the decision-makers;
- To ensure (and improve) coordination among the various segments of the organization. A shared commitment to agreed common aims which should be developed among the parties as they work together to clarify issues, formulate strategies, and develop action plans; and
- To give recommendations for establishing an upright, efficient, competitive capital market in Ethiopia and for creating investor confidence.

Members of this working group shall be representatives from:

- NBE (in its role as central bank and potential capital market regulator);
- Banks (as intermediaries);
- Big five SOEs (representing potential public issuers);
- The Ethiopian Chamber (representing private issuers); and
- Investors (private and institutional, e.g. insurance companies).

Depending on the activities and deliverables, the working group can and shall appoint external experts, and report to the forum frequently. In order to get sufficient funding, the working group shall get into contact with donors as soon as possible. One of the main tasks of the working group, after the commitment of the GoE has been ensured, would be outlining the major features of the capital market. Ensuring this is a prerequisite for the major features of a capital market, as these depend heavily on the financial instruments traded (e.g. debt instruments only or bonds and stocks).

4.1.5 Organization of Roundtables

To speed up the development process of the capital market, the Ethiopian and Addis Ababa chambers should organize regular capital market roundtables jointly with other stakeholders (e.g. NBE). The aims of the roundtables should be:

- Identifying current issues of the domestic capital market;
- Raising public awareness and attracting media attention on key issues;
- Generating solutions to existing problems, jointly with market participants;
- Promoting new ideas; and
- Setting realistic targets for future development.

The roundtables should highlight the fact that countries with a well-developed capital market and providing efficient access to finance for companies and various investment opportunities grew much faster than those without.

4.1.6 Assignment of a Capital Market Representative

Part of the strategy for the establishment of a capital market in Ethiopia is the assignment of a Capital Market Representative. This person could be elected from the "National Capital Market Dialogue Forum" and become the *formal "ambassador" for capital market development in Ethiopia* in order to coordinate the individual measures of the Ethiopian capital market initiative. In order to increase his/her acceptance and impact, the Capital Market Representative shall be assisted by national and international capital market experts. The main duties of the Capital Market Representative should be the following:

Responsibility

- Representation of capital market needs at the highest level possible.
- Planning, channelling, counselling, and driving all necessary changes.

Objectives and benefits

- Integrate and consolidate actions to support the entire capital market infrastructure.
- Eliminate inconsistencies and barriers limiting growth.
- Speed-up change processes, especially regulatory.
- Promote privatization of large state-owned enterprises via Ethiopian Stock Exchange (ESX).

Role

- Grow the breadth and depth of the capital market and support market initiatives.
- Develop policies and projects of regulations concerning capital market in collaboration with the proposed Capital Market Dialogue Forum and the Capital Market Development Fund.
- Exert influence over regulations that affect capital market.
- Lead critical capital market development projects at government level.

4.1.7 Transfer of Capital Market Knowledge

Taking immediately the initiative of raising financial literacy, especially capital market knowledge, including the establishment of "Ethiopian Financial Training and Education Centre" (EFTEC) is recommended.[50] Comments received during the validation workshop suggest to include the Ethiopian Institute of Financial Studies (EFTEC) in the "Ethiopian Financial Training and Education Centre" to avoid duplication of efforts and misallocation of resources.

However, as international examples have shown capital market training is normally provided by the exchange operators or institutions founded/ supported by them (e.g. Deutsche Borse Capital Markets Academy[51], NYSE-Euronext Training[52], Nasdaq OMX[53], Johannesburg Stock Exchange

[50] It was suggested this unit could be part of the Ethiopian Institute of Financial Studies (EIFS). The author does not support this integration, as specific and practical capital market contents tend to get watered-down due to the large supply of other courses. Best practice is to be as close to the market (ESX) as possible.

[51] The Capital Markets Academy of Deutsche Börse Group offers training in key capital markets subjects. More information can be found at https://deutsche-boerse.com/dbag/dispatch/en/kir/gdb_navigation/cma

[52] Nyse Euronext Training information at http://www.nyse.com/about/education/1089312755508.html

[53] Nasdaq OMX provides e.g. board and management training. Information can be found at http://nasdaqomx.com/listingcenter/nordicmarket/boardtraining/

Seminars[54]…), especially as the target groups differ from those of regular bank training centres.

As capital market training and education can be expensive in the longer term, capital market proponents should seek for initial funding from donors as soon as possible. A working group on capital market knowledge should be established as soon as possible in order to standardize terms and phrases. This working group shall as well be responsible for the development of the following educational instruments:

- Glossary (standardization of terms to be used by all capital market participants);
- Capital Market 101;
- Course material and presentation materials for capital market seminars and workshops;
- Self-study handbook for bonds; and
- Self-study handbook for stocks.

Once these basic educational instruments are in place, the working group shall re-evaluate what other topics and/or demands need to be addressed. These deliverables could be transferred to the ESX later. After the preparation of the above-mentioned educational materials, one could start with potential courses and seminars for the various target groups. The table below provides a sample of selected potential courses by target group.

Table 8: Sample of Selected Potential Courses by Target Group

Target group(s)	Modules
Institutional and Private Investors, Media	Securities Trading for Beginners
Issuers	Securities Trading (Intermediate course) Securities Trading (Advanced course) Ethics and Compliance How to Raise Capital Securities Trading for Beginners Investor Relations and Transparency Ethics and Compliance Basics of Corporate Governance
Financial Intermediaries	Securities Trading (Intermediate course) Securities Trading (Advanced course) Financial Analysis Ethics and Compliance Investor Protection and Services for Investors

[54] Examples of training provided by JSX are listed at http://www.jse.co.za/HowToInvest/Online-Courses.aspx

4.1.8 Offering of Workshops for Key Target Groups

In order to enhance issuer and member base, and to attract future investments, it is essential that one offers regular target group focused workshops. A small selection of potential topics for the workshops is provided as reference below:

- *"How to Raise Capital – Bank Loan vs. Capital Market Financing."*
  Aim: To increase the know-how base of company managers.
  Target group(s):companies.
- *"Going Public – The Initial Public Offering (IPO) Process."*
  Aim: To present the IPO process and the support services available from Bombay Stock Exchange (BSE) as well as success stories from a listed company.
  Target group(s): potential issuers and intermediaries.
- *"How to invest."*
  Aim: To increase know-how of investors and promote future capital Market.
  Target group(s): investors.
- *"Corporate Governance."*
  Aim: To educate company managers on how good corporate governance positively affects company value and the perception by investors.
  Target group(s): companies.
- *"How to increase services for investors."*
  Aim: To increase the know-how and service offerings of financial service providers.
  Target group(s): financial service providers.
- *"How to promote capital market financing and ESX listings."*
  Aim: To educate domestic financial service providers and advisers how to promote domestic listings and the support they will receive from ESX.
  Target group(s): financial service providers and financial consultants.

4.1.9 Creating Continuous Communication and Public Relations Flow

Members of the forum, especially those from the press, research and analysis, should be assisted to publish capital market relevant information frequently. These include press statements, financial blogs, scientific papers, etc. The objective is to demystify the capital market and raise public awareness regarding potential financial fraud and the advantages of a regulated capital market. Nice to have, but not an easy challenge, is a potential cooperation with a media partner which would publish educational contents regarding capital market on a regular basis. The *media have to realize their role and* *contribution in the establishment of a capital market and are not supposed to receive any payments for publishing any capital market related contents.*

In addition, it is recommended that the Ethiopian chamber system implements a *customer relationship management system* in order to increase the effectiveness of its relationship with stakeholders.[55]

4.1.10 Incorporation of Capital Market Development Fund

The purpose of the Capital Market Development Fund is to facilitate and enable the development of an efficient, innovative and internationally competitive Ethiopian capital market funding.

In order to address the developmental needs of the Ethiopian capital market, the objectives of the fund could be statutorily defined as:

- To promote and develop the capital market to be efficient, innovative and internationally competitive;
- To develop and upgrade skills and expertise required by the capital market;
- To develop and support high quality research and development programs and projects relating to the capital market; and
- To develop self-regulation of professional associations and market bodies.

4.2 Activities Required to Create Legal and Institutional Bases

4.2.1 Proclamation on the Establishment of Financial Services Authority

The starting point for every legal and institutional capital market base is a proclamation that mandates the foundation of a financial regulatory body. Without this proclamation, a capital market authority cannot be established. It is proposed – following international trends – that the proclamation stipulates that the financial services authority be established as a unit of the NBE.

4.2.2 Foundation of the Financial Services Authority

The establishment of a financial services authority as a regulator, on the one hand, and securities enforcement on the other, is necessary for the establishment of a capital market. No authority – no capital market. Therefore, it is essential that the relevant government bodies initiate the implementation of a financial services authority. In the light of the growing unregulated market for share companies under formation, the foundation of a Financial Services Authority

[55] Customer relationship management systems are starting from EUR 400, like Sage Act! Premium. http://www.act.com/products/sage-act-2011/#fragment-2

seems also inevitable in order to ensure investor protection and market trust. This would guarantee consumer and investor protection, and also provide the basis for a properly regulated Ethiopian capital market.

Furthermore, a Financial Services Authority will also be needed, if the ECX intends to issue derivative instruments (e.g. futures and options) on the existing spot instruments at a later point as the mandate of ECEA does not cover the regulation/supervision of financial instruments. Therefore, the need for a financial services authority is self-evident.

In any case, the Financial Market Authority should be an independent unit of the NBE, as this guarantees maximum impact on the capital market.

4.2.3 Formulation of Capital Market Act

The Capital Market Act is the most important legal foundation for the capital market and its purpose is promoting, regulating and facilitating the development of an orderly, fair and efficient capital market in Ethiopia. This Act should at least cover the following topics:

- Definitions;
- Capital Market Authority;
- Provisions relating to SE(s);
- Capital market institutions, participants and licenses;
- Financial instruments and services;
- Securities transactions and registers;
- Market misconduct (e.g. insider trading);
- Takeover and merger regulation;
- Regulatory gaps in the Commercial Code;
- Disclosure of information; and
- Administrative and civil actions.
- Other provisions

4.2.4 Establishment of Central Securities Depository and Registry

Central Securities Depositories (CSDs) manage the after-trade activities that take place in organized and over-the counter (OTC) markets. Regardless of ownership, the operations, policies and procedures of these organizations are vital to the success of the financial markets they serve.

Generally speaking, there are four areas where CSDs may be active, with some organizations having responsibility for all activities and others taking on only certain tasks. CSD may be responsible for the clearing of securities, in such a manner that the net position of each market investor is identified. CSDs are nearly always responsible for the settlement of securities that is to say the payment and physical or virtual delivery of purchased financial products and the accounting for those product transactions. Following the transfer of payments, CSDs may be engaged in the business of managing financial products for investors and issuers. These services include the management of share operations and identification of shareholders for companies. In many cases, the range of activities varies by national regulation that is not usually consistent across borders.

4.2.5 Proclamation on the Foundation of Securities Exchange (SE)

The starting point for the market place itself is the proclamation that mandates the foundation of the Ethiopian Stock Exchange.

4.2.6 Foundation of the Securities Exchange

The foundation of the SE is a consequence of the proclamation of the SE. There are various possibilities regarding the legal and organizational set up of an SE. In this particular case, establishing a joint stock company (JSC) that is fully owned by the GoE at the beginning is recommended. The reasons for this specific setup are:

- GoE commitment to a capital market;
- Efficient interconnection between SE, NBE (as securities authority) and other relevant administrators (e.g. PPESA);
- No internal hurdles or competition;
- Easier access to donor funding (e.g. AfDB).

At a later point and after privatization of stakes of some big domestic companies have taken place, the GoE shall consider selling shares to the main market participants (issuers and investors), thereby jump-starting the Ethiopian equities market as proved in other marketplaces. Doing so will increase the probability of preference for the domestic market by both issuers and investors. Furthermore, the GoE could look for regional harmonization and even alliances with other SEs.

4.2.7 Initiation and Promotion of Privatization

Although it does not seem very likely at the moment, the most significant step to express the commitment of the GoE and the most valuable measure to attract domestic and international awareness for the establishment of a capital market would be a partial privatization of one of the big five companies – preferable Ethiopian Airlines. *Even if only five percent could be privatized,* and that still allows the GoE to keep full control over the company, *this could kick start the capital market and create the required minimum liquidity from the very beginning.*

4.2.8 Development Process for Capital Market Establishment

ID	Cat.	Measure	Linked to	Impact	Effort	Timing t + 0 Y	1 Y	2 Y	3 Y	Responsible Institution(s)
0	P	(Informal) decision to implement a capital market	-	-	-					GoE
1	-	Establish Working Group on capital market development	0	High	Medium					TBD
2	-	Start discussions with donors to secure grants	0	-	-					GoE
3	D+S	Increase financial literacy - market education	-	High	Medium					Chambers,NBE
4	P	Issue proclamation on establishment of Capital Market Authority(CMA)	-	Prerequisite	High					GoE
5	P + I	Implementation of CMA	4	High	Medium					GoE, NBE
6	I	Design of market structure and model	5	High	Medium					GoE, NBE, CMA
7	I	Adjusting legal and regulatory environment	5	High	High					GoE, NBE, CMA
8	P	Proclamation on Ethiopian CSD (ECSD)	4	High	High					GoE
9	I	Implementation ECSD (incl. Central Registry & clearing)	8	High	High					ECSD
10	P	Proclamation on ESX	5, 8	High	High					GoE
11	I	Implementation of ESX	5, 8	High	High					ESX
12	S	IPO and listing workshops	11	Medium	Low					ESX, Chambers
13	S	GoE decides on IPO of minority stakes of selected SOEs	5, 9, 11	High	High					GoE
14	S	IPO of 1st selected SOE (at least minority stakes)	13	High	High					GoE
15	D +S	Media cooperation to promote Ethiopian capital market	11	Medium	Low					ESX
16	D	Awareness raising to attract local investors	11	Medium	Medium					ESX
17	D	Road shows to attract Diaspora and internat. investors	11	High	Medium					ESX
18	I	Implementation of a central counterpart	6, 8	High	Medium					ECSD
19	D+S	Decision to open all industries for foreign investments	-	High	High					GoE
20	S	IPO of 2nd selected SOE (at least minority stakes)	13	High	High					GoE
21	D	Allow foreign remote members to trade on ESX	11	High	Medium					GoE, CMA

P: Prerequisite
I: Capital Market Infrastructure (including legal & regulatory environment)
D: Demand Side Measure
S: Supply Side Measure

Please note that the above development process provides only a rough overview of the steps needed to set up the Ethiopian capital market. Detailed planning is needed for each step of the process by the responsible entities/institutions. We assume that ECSD and ESX will be public entities at the beginning to ensure full support and commitment of the GoE.

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ANNEX I

List of Studies and Reviews on Capital Market Establishment in Ethiopia

Title	Author	Date	Remarks
1. Feasibility of Establishing of Securities Exchange Market	NBE	1995	NA
2. Prospects and Challenges for Developing Securities Market in Ethiopia: An Analytical Review	Prof. Assrat Tessema	1998	
3. Proceedings of the National Seminar Towards Promoting Capital Market in Ethiopia	Mekele University	2001	eleven papers
4. Towards the Development of Capital Market in Ethiopia	Tadewos Harege-Work and Araya Debessay	1995	
5. A Study on the Feasibility of Securities Exchange Market in Ethiopia	East Africa Securities Company	1995	
6. Proposal for the Formation of a Share Market in Ethiopia	East Africa Securities Company	1999	
7. The Addis Ababa Stock Exchange Rules & Regulations Manual - Volumes 1 and 2	Ernst & Young	1999	working draft
8. IFC/Conceptor-Mission	Conceptor	2001	
9. Capital Market Infrastructure Development	Maxwell Stamp (UK)	2010	NA

ANNEX II

List of On-site Interviews, Research Meetings and Field Studies

No.	Date	Participants
1	04.04.2011 @ 10:00	PSD Hub: Mr. Hailemikael LIQU (Manager), Mr. Bulti TERFASA (Senior Expert)
2	04.04.2011 @ 16:00	World Bank (WB): Mr. Menbere TESFA (Private Sector Development Specialist)
3	04.04.2011 @ 17:00	Access Capital: Mr. Ermyas AMELGA (Chief Executive Officer)
4	05.04.2011 @ 12:30	Ministry of Trade (MoT): Mr. NUREDIN (Licensing and Registration Department)
5	05.04.2011 @ 14:00	Addis Ababa Bureau of Trade and Industry Development: Mr. Zewdie BEKELE (Licensing and Registration Department)
6	06.04.2011 @ 10:00	Ministry of Finance and Economic Development (MoFED): Mr. DENEKE (Senior Expert Macro-Economic Department)
7	06.04.2011 @ 16:00	Delegation of the European Union to Ethiopia: Mr. Christoph WAGNER (Head of Economic, Trade, Social, Regional Integration Section)
8	07.04.2011 @ 10:00	Ethiopian Economic Association: Dr. Assefa Admassie ATLIE (Director)
9	07.04.2011 @ 12:00	Austrian Embassy in Addis Ababa: Dr. Gudrun GRAF (Ambassador)
10	07.04.2011 @ 13:30	Privatization and Public Enterprises Supervision Authority: Mr. Beyene GEBREMESKEL (General Director)
11	07.04.2011 @ 16:00	National Bank of Ethiopia (NBE): Mr. Mathewos SHAMO (Project Officer, Financial Sector Capacity Building)
12	08.04.2011 @ 09:00	Ethiopian Development Research Institute: Dr. Gebrehiwot AGEBA (Senior Researcher)
13	12.04.2011 @ 14:00	PSD Hub: Mr. Hailemikael LIQU (Manager), Mr. Bulti TERFASA (Senior Expert)
14	12.04.2011 @ 15:30	African Development Bank/African Development Fund: Mr. Peter MWANAKATEWE (Chief Country Economist)
15	13.04.2011 @ 10:00	Mekelle University College of Law & Governance: Prof. Dr. Fisseha-Tsion MENGHISTU (Director)
16	13.04.2011 @ 12:00	Precise Consult International PLC: Mr. Henock ASSEFA (Managing Partner)
17	13.04.2011 @ 14:00	Nyala Insurance S.C.: Mr. Eyob MEHERETTE (CEO)

18	13.04.2011 @ 16:00	Ethiopian Insurance Corporation: Mr. Yewondwossen ETEFFA (Managing Director)
19	14.04.2011 @ 10:00	Austrian Development Agency (ADA): Mag. Heinz HABERTHEUER (Head of Coordination Office for Development Cooperation)
20	14.04.2011 @ 11:30	Timret Agro Industry S.C.: Mr. Taffese MESFIN (Board Chairman), Mr. Mekonnen TADESSE (Project Officer)
21	15.04.2011 @ 14:00	Development Bank of Ethiopia (DBE): Mr. Darge BERKESSA (Principal Operations Officer)
22	15.04.2011 @ 15:30	Ethiopian Commercial Bank: Millenium Dam Bond
23	18.04.2011 @ 11:30	Habesha Capital Services P.L.C.: Mr. Eskinder DESTA (Managing Director)
24	19.04.2011 @ 10:00	Capital: Mr. Gerum ABATE (Editor)
25	19.04.2011 @ 14:00	PSD Hub: Mr. Hailemikael LIQU (Manager), Mr. Bulti TERFASA (Senior Expert)
26	19.04.2011 @ 16:30	Ethiopian Commercial Bank (ECB): Mr. Berahun DESTA (Director Fund Management)
27	20.04.2011 @ 11:00	Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA): Mr. Teferi ASFAW (Deputy Secretary General)
28	20.04.2011 @ 14:30	Ethiopian Commodity Exchange (ECX): Mr. Ahadu WOUBSHET

ANNEX III

Scope of Capital Market Potential Assessment Questionnaire

Main Topics	Top 20 Subtopics
Preconditions	1. Government commitment 2. Macroeconomic conditions 3. Corruption/Transparency level
Legal and Regulatory Infrastructure Conditions	4. The regulator and securities enforcement 5. Private civil remedy 6. Adequacy of the judicial system 7. Accounting and auditing (IOSCO Principle 16) 8. Corporate governance 9. Takeover regulation 10. Bankruptcy and insolvency law 11. Self-regulation
Current Market Conditions	12. Types of regulated markets in existence 13. Equity securities issued and traded 14. Other instruments traded 15. Private placements and other non-public offerings 16. Trends in market data (to questions 12 - 16 above) 17. Profitability of the market and market participants; cost burdens 18. Potential investor base 19. Potential issuer base 20. Presence of fraudulent investments and unregulated markets

ANNEX IV

Companies to be Privatized within the Next Five Years

Name of Enterprise	Privatization Modality	Planned Year of Privatization				
		2010/11	2011/12	2012/13	2013/14	2014/15
Abobo Agricultural Dev't Enterprise	Tender	√				
Adami Tulu Pesticide Processing Sh.Co.	Joint Venture	2009/10				
Addis Ababa Ras Hotel	Tender		√			
Adola Gold Dev't	Tender	√				
Agricultural Mechanization Service Enterprise	Tender		√			
Anbessa Shoe Sh.Co.	Joint Venture	2009/10				
Arba Gugu Agricultural Dev't	Tender			√		
Arba Minch Textile Sh.Co.	Tender	√				
Arsi Agricultural Dev't Enterprise	Tender					
Artistic Printing Enterprise	Tender		√			
Assela Malt Factory	Tender			√		
Awash Construction Sh.Co.	Tender			√		
Awash Melkassa Aluminium Sulfate & Sulphuric Acid Sh.Co.	Joint Venture			√		
Awash Winery Sh.Co.	Tender	√				
Awassa Agricultural Dev't Enterprise	Tender					
Awassa Textile Sh.Co.	Tender	√				
Bahir Dar Textile Sh.co.	Management contract	√				
Bale Agricultural Dev't Enterprise	Tender					
Batu Construction Sh.Co.	Tender			√		
Bebeka Coffee Plantation	Joint Venture	2009/11				
Bedele Brewery Sh.Co.	Tender	√				
Bekelcha Transport Sh.Co.	Tender	√				
Bilito seraro Agricultural Dev't	Tender	√				
Blue Nile Construction Sh.Co.	Tender			√		
Bole Printing Enterprise	Tender	√				
Building Materials & Supplies Enterprise	Tender			√		
Caustic Soda Sh.Co.	Joint Venture		√			

Coffee Plantation & Dev't Enterprise						
Coffee Processing & Warehouse Enterprise	Tender		√			
Coffee Technology Dev't & Engineering Enterprise	Tender			√		
Combolcha Textile Sh.Co.	Management contract	√				
Comet Transport Sh.Co.	Tender					
Commercial Printing Enterprise	Tender	√				
Ethiopian Fruit & Vegetable Marketing Sh.Co.	Tender	√				
Ethiopian Marble Industry	Tender	√				
Ethiopian Mineral Dev't Sh.Co.	Joint Venture	√				
Ethiopian Pharmaceutical Manufacturing Sh.Co.	Tender			√		
Ethiopian Pulp & Paper Factory Sh. Co.	Joint Venture/ Tender				√	
Ethiopian Tourist Trading Enterprise	Tender		√			
Garadila Agricultural Dev't	Tender			√		
Goffer Agricultural Dev't	Tender			√		
Gojeb Agricultural Dev't	Tender	√				
Hamaressa Edible Oil Sh.Co.	Tender	2009/12				
Harar Brewery Sh.Co.	Tender	√				
Herero Agricultural Dev't	Tender			√		
Horticulture Dev't Enterprise(Head office)	Tender					
Hunte Agricultural Dev't	Tender			√		
Kality Metal products Factory	Tender		√			
Kereyu Loge	Tender	√				
Kokeb Flour & Pasta Factory	Tender	√				
Langano Resort Hotel	Tender	√				
Limu Coffee Plantation	Joint Venture	2009/10				
Lole Agricultural Dev't	Tender			√		
Merchandise Wholesale & Import Trade Enterprise	Tender					√
Meta Brewery Sh.Co.	Joint Venture	2009/10				
National Alcohol & Liquor Factory	Auction		√			
Natural Gum Production & Marketing Enterprise	Tender			√		
Ras Hotels Enterprise	Tender					
Residential Houses Construction Enterprise	Tender	√				

Robe Agricultural Dev't	Tender			√		
Rubber Plantation National Nucleus Project				√		
Shebelle Transport Sh.Co.	Tender	√				
Sinana Agricultural Dev't	Tender			√		
Tabor Ceramics Sh.Co.	Tender	√				
Temela Agricultural Dev't	Tender			√		
Tepi Coffee Plantation	Joint Venture	2009/12				
Tigray Flour & Edible Oil Sh.Co.	Tender	√				
Upper Awash Agro-Industry Enterprise	Tender		√			
Wabishebelle Hotels Enterprise	Restitution	√				
Walia Inter-City Bus Service Enterprise	Tender	√				
Wondo Genet Resort Hotel	Tender	√				
Woyra Transport Sh.Co.	Tender	√				