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Corporate Ownership transfer: The role of stock market in Ethiopia

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Abstract

Stock market is one of the types of markets where shares or stocks of different public companies are bought and sold (exchanged). The exchanges of stocks are conducted through formal organized stock exchanges and without a central exchange or broker through over-the-counter marketplaces that operate under a predetermined set of regulations. Since stock represents the corporate ownership & the existence of stock market facilitates ownership transfer. Ethiopia is the largest country in the world with a closed capital account and a functioning capital market. The current underdevelopment of its capital markets starkly opposes the vibrant money and securities market during the 1960s. To achieve the objective of the study, data were collected from both primary sources as well as secondary sources. The researcher has collected primary data through distributing questionnaires to managers and shareholders of companies. The collected data from questionnaires were analyzed using descriptive analysis method. The study employed a convenience sampling technique to select a managers and shareholders of corporations operating in the country. The study evaluated the challenges and existing practice of ownership transfer, and the current condition of stock market in Ethiopia in terms of legal, regulatory, technical, macroeconomic, technological and other factors and found that the legal factors (degree of stability, peace and internal security of a country, inadequate laws and regulation), regulatory factors (lack of good regulation and supervision, deficient corporate governance and public authority, economic factor (high inflation rate) and insufficient technological infrastructure as vital factors that need to be addressed to have an efficient stock exchange market in Ethiopia.

Keywords: Ownership Transfer, Stock Market, Ethiopia,

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1. Introduction

A stock market bears resemblance to other markets, albeit it possesses a unique characteristic in relation to the categories of commodities exchanged and its structure. It encompasses the exchange of financial instruments, which

are enforceable records that evidence an individual's ownership stake in a corporation (referred to as shares) or a debtor-creditor association with a corporation or government, specifically equities and fixed-income securities. Stock markets are divided into two categories: primary and secondary.

Primary markets are physical marketplaces in which companies make their shares available to the general public for the first time. This process is commonly referred to as an Initial Public Offering. In these marketplaces, shares are sold through intermediaries or financial institutions acting on behalf of the issuing company. On the other hand, secondary markets act as a platform for the resale of securities that were initially traded in the primary markets. The buying and selling of shares and stocks in secondary markets take place within a highly sophisticated marketplace where stocks and shares are treated as tradable assets.

In both markets, only the securities of companies that satisfy specific criteria of a designated stock exchange are eligible for trading. Nevertheless, the quantity of traded securities in the secondary markets surpasses that of the primary markets by a significant margin. Consequently, secondary markets fulfill crucial economic roles in addition to facilitating the trading of stocks and shares. The initial pivotal role of secondary markets is to indicate the level of efficiency exhibited by companies. This is manifested through the continuous adjustment (both upward and downward) of securities prices. By doing so, secondary markets direct capital towards companies that demonstrate superior performance, thereby ensuring the effective allocation of resources (in this instance, capital).

The establishment of a stock market has been a widely debated topic in Ethiopia for nearly twenty years. Certain individuals contend that the presence of a capital market is essential due to the prevailing scarcity of financial resources in both domestic and foreign currencies. Conversely, opposing viewpoints highlight the underdeveloped nature of financial reporting and delicate corporate governance systems, as well as the absence of a necessary legal framework and a notably feeble private sector. In contrast, the government maintains a steadfast position on the matter. This is why EIH signed a Cooperation Agreement with MoF and FSD Africa to establish the ESX On May 18, 2022 (FSD Africa, 2022). ESX is a key market institution that will provide Ethiopian entrepreneurs and businesses with access to long term finance. Ethiopia's sizable and formidable sovereign wealth fund, EIH, is partnering with the Ministry of Finance of the nation and FSDA, headquartered in Nairobi, to establish the ESX. EIH has established a Project Team in conjunction with FSDA, which enjoys support from the British government's development aid. Furthermore, EIH has extended invitations to consultants to submit bids for a fundraising initiative aimed at procuring capital for the novel stock exchange.

A minimum of 50 companies, encompassing both banking and insurance institutions, are projected to initiate listing procedures at the commencement of the exchange, as reported by Minney (2022). This exchange has been meticulously devised to furnish a platform for the acquisition of funds by small and medium-sized enterprises, which serve as the backbone of the Ethiopian economy.

Furthermore, the exchange is poised to present an avenue for the privatization of Ethiopia's government-owned enterprises. Over the past few years, the administration has diligently implemented numerous reforms with the aim of liberalizing the economy, and the introduction of a securities exchange is anticipated to serve as a catalyst for attracting fresh investments from the private sector. EIH, a prominent stakeholder within the ESX, is also expected to bolster the exchange by offering a series of listings, primarily consisting of minority stakes, derived from its expansive business portfolio valued at \$38 billion. It is widely speculated that a span of two years may still elapse before the ESX officially commences trading activities. Equities, derivatives, financial and debt securities, as well as FX contracts, are anticipated to be traded on this platform. The country presently suffers from a dearth of stockbrokers, investment advisors, fund managers, custodians, and various other essential entities.

Ethiopia has granted its approval for a novel Capital Markets Establishment Proclamation in 2021, thereby laying the legal groundwork for the advancement of capital markets within the nation. This measure aims to bolster economic progress by fostering augmented capital mobilization, financial ingenuity, and risk distribution in investment ventures. The implementation of this proclamation paves the way for the founding of the Ethiopian Capital Markets Authority (CMA), which will assume the role of the capital markets overseer. Additionally, this measure permits the establishment of self-regulatory organizations such as the ESX, as well as the Securities Depository and Clearing Company.

The Capital Markets Proclamation (No. 1248/2021) stipulates that the establishment of the exchange as a Share Company (a public company under Ethiopian law) will be undertaken by the government in collaboration with the private sector, including foreign investors. The ownership of the ESX will be distributed among corporations, capital market intermediaries, and operators of international securities exchanges, with a range of 25% to 55%, while the government's ownership will not exceed 25%. The ESX will function as a profit-oriented entity. The Project Team is tasked with formulating the ESX business plan and its organizational framework, as well as delineating the various market segments. Furthermore, the team will spearhead the development of the ESX trading regulations, policies, and procedures, the trading and operational systems, and other information and communication technology infrastructure. Ultimately, the team will establish and inaugurate the ESX operations (Minney, 2022).

2. Statement of the problem

The prevailing pattern demonstrates that Ethiopia possesses an ample backlog of investment prospects and resources to initiate a functioning capital market and securities exchange, provided that it is properly executed. A

well-functioning capital market necessitates the involvement of three key stakeholders: active investors, diverse companies to be listed, and various intermediaries like brokers, dealers, and investment banks. On the demand side, we are of the opinion that there exists a burgeoning middle class with the potential and inclination to participate in the securities market—a trend evidenced by the steady increase in the number of citizens holding bank shares over the years. Furthermore, the revised mandate of the Ethiopian Pension Agency permits its engagement in the equities market, thereby unlocking investments from the nation's largest stakeholder, with an approximate annual outstanding balance of USD 3,181,006,000 (Mered, 2022). A fraction of the fund's investment in the securities exchange will have a substantial impact on its liquidity and performance. On the supply side, Ethiopia's expanding financial institutions, including private banks and insurance companies, represent the primary potential candidates for listing. To a lesser degree, a few private companies in other sectors such as real estate, construction, and beverage also qualify as eligible candidates. However, the most highly anticipated set of listings on the exchange will likely comprise government-owned enterprises, including the CBE, Ethio telecom, Ethiopian Airlines, Ethiopian Shipping, and Logistics Enterprise—key pillars of the country's economy. It is anticipated that Ethiopian Investment Holdings, a sovereign wealth fund entrusted with the consolidated management of the nation's most profitable state enterprises, will restructure and partially privatize these entities for the benefit of the private sector. By privatizing a small portion of these companies and listing them on the exchange, not only will diversification opportunities for investors increase, but credibility will also be conferred upon the exchange, thereby incentivizing foreign investments.

By leveraging its indigenous resources and drawing lessons from the experiences of other nations, Ethiopia possesses the potential to serve as a host for one of Africa's financial centers. The experiences of various African countries have demonstrated that a lack of liquidity, as indicated by an exceedingly low turnover ratio, represents the primary obstacle faced by numerous stock exchanges throughout the continent. Insufficient liquidity translates into difficulties in establishing and maintaining a local securities exchange, complete with its own trading system, market analysis, brokers, and related components, due to the limited business volume. This predicament can be attributed to a combination of stringent regulations, the absence of online trading capabilities, a dearth of stock market visibility, and, above all, an insufficient number of listed companies. Consequently, conducting an evaluation of the current practices of ownership transfer and the requirement for the development of the stock market is highly advantageous for Ethiopia.

3. Objective of the study

The objective of the study was to assess the existing practice of ownership transfer and stock market in Ethiopia.

In line with the general objective, the specific objectives of the study are:

- a) To identify the importance of stock market
- b) To assess the existing practice of ownership transfer
- c) To determine the challenges of ownership transfer in the absence of stock market
- d) To examine the current status of stock market

4. Literature Review

Several intellectuals offer various definitions of the stock exchange. To provide a few examples, Fabozzi and Modigliani (1996) define stock exchanges as formal organizations comprised of members who utilize the facilities to exchange specific common stocks. The stock market serves as a marketplace for securities of companies. Although share companies may also release debt securities, the foundation of all corporate endeavors lies in shares. Shares furnish the initial capital for a corporate venture. A stock exchange is either a corporation or a mutual organization that furnishes trading facilities for stockbrokers to engage in the trading of stocks and other securities.

Moreover, the stock market refers to the amalgamation of markets and exchanges where customary activities involving the buying, selling, and issuance of shares of publicly-held companies transpire. These financial activities are executed through institutionalized formal exchanges or over-the-counter (OTC) marketplaces that operate within a predefined set of regulations. A country or region may possess multiple stock trading venues, enabling transactions in stocks and other types of securities. A stock exchange functions as an entity that provides services to stockbrokers and traders for the purpose of trading stocks, bonds, and other securities. Stock exchanges also furnish facilities for the issuance and redemption of securities and other financial instruments, as well as for capital events such as the payment of income and dividends. Securities traded on a stock exchange encompass shares issued by companies, unit trusts, derivatives, pooled investment products, and bonds (Kibuthu, 2005).

Therefore, based on the aforementioned definitions, it can be postulated that a stock exchange encompasses a designated physical location and operates as a formal establishment comprised of members. Within this framework, various financial assets, such as ordinary shares and debt securities, are exchanged. Stock exchanges yield numerous advantages within the realm of the economy, and these advantages are inherently connected and mutually reliant. A well-established stock exchange assumes the responsibility of generating capital for businesses, mobilizing

savings for investment purposes, facilitating corporate expansion, enabling profit distribution, enforcing corporate governance, fostering investment opportunities for small-scale investors, facilitating government capital acquisition for development initiatives, and serving as an indicator of the overall economic climate.

According to Wakuma (2019), Ethiopia is aspiring to reach the low-middle income group joining its neighboring countries like Kenya, Djibouti and Sudan by 2025. A financial infrastructure like a stock exchange is a proven concept that advanced countries have long used. More than 80% of the countries in the low-middle category have already set up stock exchange. In the early 80's, Africa had only 8 active markets but in 2019 it has risen to 29 exchanges. The roots of the stock exchange go more than 400 years back when ship explorers sold shares to finance their voyages to the uncertain seas. East India companies sold shares with dividends by spreading their risks and sharing their returns. This made way for larger and multiple fleets with increased profits. Traders started selling shares to others informally at public spaces like coffee shops. And as such, the stock exchange was born. Antwerp, Amsterdam and London stock exchange were the earliest exchanges.

In due course, after selling shares became popular, nations started experiencing the hazards that come along with it. Business men went on to sell shares to the public over unreal prospects bringing loss to households. These events were the first in line to demonstrate the need for regulation in stock exchange. Surfacing scams and other macro-economic devastation linked to SE led to the establishment of legal bodies by which nations govern their exchange.

Today, the top stock exchange of the world is the NYSE with a market capitalization of 30 Trillion USD. The first stock traded was the bank of New York. Other exchanges like the TSE first opened in 1878 trading precious metals and government bond. SSE launched originally in the 1860s it was later shut down by the communist government in 1949 and opened in 1990 after 40 years. Most stocks traded in the beginning were state run companies, banks and insurance. The JSE is Africa's biggest exchange launched in 1887. In terms of ownership, most of the global exchanges are evolving into publicly traded companies, owned by banks, insurance, brokers and mutual funds. An exception, however, is the Shanghai stock exchange which remains government owned.

Across the globe, more than 600,000 companies are traded on a daily basis. The global average return for stocks has been around 6.6% for the last 200 years. The primary reason for selling stocks commonly known as IPO is raising capital for long term without being in debt. In this case, the company sells shares to many investors. This allows companies to tap into a huge capital base for its business. In developed markets, companies' initially start as a private entity then demonstrate success for a period of time before they offer their shares to investors and the public whereas in

Ethiopia, several companies offer their initial offering to the public directly pitching a prospect of profitability. The country's practice is unique in that, its success hinges on the trustworthiness of the people issuing the stock rather than a proven business. In some cases, this approach has brought great disappointment to shareholders as they failed in operations. A stock exchange would help develop the concept of due diligence done by investment banking or underwriters where the financial professionals would scrutinize the prospect, buy bulk shares and retail it to the public through an exchange.

Secondary market is a market where investors sell those issued shares to other buyers. In simple terms, this can be likened to buying a second-hand car from the market; only stocks do not depreciate over time. Instead of doing a test drive or looking at the mileage, one will look into its past performance and assess its future potential. Like a river that flows throughout a land, a constant flow of money brings health to a nation's economy. In one extreme, non-liquid market discourages investment whereas on the other end of the spectrum highly liquid markets lead investors to be short sighted at the expense of the project. Currently in Ethiopia, it is estimated that there are close to 1000 share companies that have sold shares to the public. However, there is no place where the owners of these shares can go to find interested buyers. Not all of these companies would comply with the regulatory standards that would be required for listing of course. But the establishment of a stock exchange would create a platform where those shares can easily be transferred to others and so on. The market worth of common tangible assets in Ethiopia like real estates and vehicles can easily be determined and transacted quite frequently. On the contrary, anyone in possession of shares will have a hard time determining its market value or finding a buyer.

Assuming an appropriate regulatory body is set parallel to the Stock Exchange; an exchange puts pressures on share companies to be transparent about their financial health and performance. This allows the public to have access to information of any listed company. This is very helpful in reducing risk as well as encouraging investment. Although there are cases where the stock market widens the gap between the rich and the poor, the stock market in its essence allows citizens to invest and divest their money in any listed company. The return/loss for their shares will be governed by the size of the seeds sown and the performance of the companies. It is hard to expect major portions of our population categorized as low-income earners to make large investments. However, organized in investment groups or clubs they can become active participants in various industries.

There are grounds to believe that listed companies would perform better with increased efficiency of governance as it increases the conflict between the suppliers of capital and the management. Listed companies are expected to adopt a set of governing practices that are designed to help them build

lasting businesses. It is customary to share companies in Ethiopia to hold shareholder meetings once a year at least in the banking industry to disclose how they performed. If these banks are listed however, they would be obliged to disclose their performance on a regular basis. Any other major internal issues that would affect the company would have to be reported to the public early.

From a nation building vantage point, it is possible that collective ownership of previously state-owned enterprises could increase unity in citizens as ownership of profitable company brings solidarity at some level. The Ethiopian government has had failed attempts in transferring the ownership of some SOEs. This is partly because prudent investors not only want opportunities of investment but also the possibility of cashing out all or portions of it should they choose so. The Stock exchange can be used bring clarity on the real market worth of companies like Ethiopian Airlines, Ethio-Telecom, Sugar Corporation etc.as it would set to motion the forces of supply and demand. Moreover, this it might be easier to collect small amounts of money from several local investors rather than a huge sum from a hand full of foreign investors. At least doing so, it's possible to reduce the huge demand for paying dividends in foreign currency at a later stage. The SE can reduce opportunity cost. Any lost investment opportunity because of lack of information is an opportunity cost since it is money that could have been used to bring profit.

When examining the historical progression of the stock market in Ethiopia, one can trace its origins back to the Imperial period. During this time, Emperor Menelik II, in 1897, utilized the sale of shares in France to acquire a portion of the necessary 40 million francs required for constructing the Ethio - Djibouti railway line. Subsequently, in 1906, the Abyssinia Bank, the first bank in Ethiopia, made its shares available in Addis Ababa, New York, Paris, London, and Vienna. From 1960 to 1974, the stock market experienced significant growth, with multiple share companies flourishing and the National Bank of Ethiopia overseeing share trading through the Addis Ababa Share Dealing Group. Prominent share companies during this period included Addis Ababa Bank, Ethiopia Abattoirs, Bottling Company of Ethiopia, Indo - Ethiopian Textiles, HVA Ethiopia, and Tendaho plantations. However, all these companies were nationalized in the 1974/75 socialist revolution, which detrimentally affected the private sector-led economy.

Following the change in government from socialism in 1991, interested parties, such as the Addis Ababa Chamber of Commerce and Sectoral Associations, made efforts to reintroduce the stock exchange market in Ethiopia. Ruecker (2011) highlights that in 1995, the National Bank of Ethiopia conducted a study on the Feasibility of Establishing a Securities Exchange Market in Ethiopia and prepared a draft securities and exchange proclamation, which is currently pending government endorsement.

Numerous seminars and studies have been conducted by various scholars, all emphasizing the necessity of establishing a capital market in Ethiopia. In 1995, a group of entrepreneurs, organized as the Ethiopian Share Dealing Group under the Addis Ababa Chamber of Commerce and Sectoral Associations, initiated a share dealing group similar to the former Addis Ababa Share Dealing Group of 1974. This group spearheaded the development of Stock Exchange rules and regulations, as well as the bylaws of a share dealing group. Additionally, Ernst & Young were commissioned to create an internationally standardized rules and regulations manual (Ruecker 2011).

In the year 2008, the National Bank of Ethiopia (NBE) initiated a study on the development of infrastructural aspects of the capital market. This study was undertaken with the assistance of international consultants as part of the Financial Sector Capacity Building Project. The main focus of the study was on the enhancement of the capital market infrastructure in Ethiopia. The funding for this initiative was provided by the World Bank (WB) due to the expressed interest of the Ethiopian government. Despite the aforementioned efforts, up until the present time, Ethiopia has not established a stock exchange market, nor has it allowed companies to be listed on foreign exchanges. Consequently, share trading has been conducted through alternative methods such as the utilization of part-time brokers, reliance on the invested companies themselves, or the responsibility falling on the seller to locate buyers. Unfortunately, these methods expose the seller to potential disadvantages such as unfair pricing and delays. It is important to note that the absence of appropriate institutions to facilitate trade is the primary cause for these circumstances, rather than any shortage of buyers and sellers in the market (Tsegaye, 2007).

To overcome the challenges of ownership transfer and to realize the benefits of having well developed stock market, very recently Ethiopia approved a new Capital Markets Establishment Proclamation in 2021. This is mainly to provide the legal foundation for the development of capital markets in the country and to support economic development through increased capital mobilization, financial innovation, and risk sharing in investment. The proclamation clears the way for the establishment of the Ethiopian CMA, the capital markets regulator, as well as self-regulatory Organizations like the ESX and the Securities Depository and Clearing Company.

5. Research Methodology

The descriptive research design was employed in this study to elucidate the prevailing practice of ownership transfer in share companies in Ethiopia. This design also aimed to assess the necessity of a stock market and to explore the challenges associated with the transfer of ownership and the establishment of a stock market in Ethiopia. In order to achieve the desired outcomes and provide detailed evidence

regarding these issues, a case study research design was adopted using a qualitative approach. To gather responses from various stakeholders, including managers and shareholders, a qualitative approach was employed. The target population of this study consisted of the management bodies and shareholders of share companies in Ethiopia. Purposive sampling technique was utilized, and data collection was facilitated through the use of convenient sampling. The primary sources of data were employed to ensure sufficient information was obtained from the target respondents. Structured questionnaires were administered to gather primary data from managers and shareholders. After the completion of the data collection process, the collected data were analyzed using descriptive analysis techniques, such as percentage and tables. Given that the primary data collected, particularly through the questionnaires, encompassed both quantitative and qualitative aspects, descriptive analysis technique was employed.

6. Results and discussions

This part of the research showcases information collected through the use of questionnaires. The findings are presented and scrutinized in order to fulfill the aims of the investigation. A sum of 110 questionnaires were dispersed among company managers (10) and company shareholders (100) alike. Out of the complete set of questionnaires distributed, 8 were distributed to share company managers and 84 to shareholders of companies, yielding a total of 92 (83.63%) respondents who provided their valuable insights and feedback.

6.1. Analysis of data collected from managers of Share Companies

Table 1: General information of the respondents (managers of companies)

Description		Number of respondents	Percentage
Gender	Male	5	62.5
	Female	3	37.5
	Total	8	100
Age Group	25-35	0	0
	36-46	8	100
	47-50 and above	0	0
	Total	8	100
Educational Status	Below Diploma	0	0
	Diploma	0	0
	BA/BSC	3	37.5
	Masters & above	5	62.5
	Total	8	100
Service year	1-5	0	0
	6-10	0	0
	11-15	6	75
	16-20	2	25
	20 and above	0	0

	Total	8	100
Division of work	Finance	3	37.5
	Human resource	3	37.5
	Sourcing & facilities	2	25
	Total	8	100
Holding position	Staff	0	0
	Supervisor	0	0
	Manager	8	100
	Total	3	100

Source: Survey result, 2022

Table 2: Issuance of shares & share transfer

	Number of respondents	Percentage
For what purpose your company issued the share?		
For setting up cost	0	0
For financing short-term investment	3	37.5
For financing the acquisition of supplies	0	0
For financing long-term investment	2	25
For financing long-term investment and diversifying the risk of financing	3	37.5
Total	8	100
How did you determine the price of your share to sale it to investors (What are the determinant factors for pricing your shares)?		
The profitability of the company and the demand per share of a company.	4	50
The goodwill of the company.	2	25
The market place, demand for and supply of shares, management of a company, goodwill and the economy.	2	25
Total	8	100
Where and how your company did sell its share to investors?		
From company's head office	8	100
Total	8	100
At what circumstances and interval your company issues the share?		
It is based on the need to increase the paid up capital and National Bank of Ethiopia's requirements.	5	62.5
There is no interval; it depends on the need of organizations	3	37.5
Total	8	100
How do holders of ownership stock transfer to other whenever they need to liquidate their investment in your company?		
Selling back to your company	1	12.5
To shareholders of your company	5	62.5
Selling to brokers or through brokers	2	25
Total	8	100

Did your company hold shares of another share companies?		
Yes	6	75
No	2	25
Total	8	100
If your answer for the previous question is yes, for what purpose your company acquired other companies share?		
To influence the financial and operating policies of the investee company, the investor company acquires shares of other companies	6	100
Total	6	100
Do you think that the establishment of stock market in Ethiopia is important?		
Yes	8	100
No	0	0
Total	8	100

Source: Survey result, 2022

Share companies issue their shares for the purposes of financing short-term and long-term investments, and for diversifying the risk of financing. The selling price of shares is determined by the profitability of the issuing company and the demand for shares. All of the share companies sell their shares from their head office. Most of the respondents respond that share companies issue shares based on the need to increase the paid up capital and National Bank of Ethiopia's requirements. Shareholders liquidate their investment on the shares of companies by selling it to other shareholders of companies. As per most of the respondents' response, share companies hold shares of other companies for the purpose of influencing the financial and operating policies of the investee company. All respondents of the managers surveyed, who have the knowledge of stock exchange, depicts that they think of establishing stock exchange.

Most of the managers in the respective share companies hold the belief that the establishment of a stock exchange in our nation at this particular juncture serves to facilitate the ease with which shares can be bought and sold, bridging the gap that exists in bank loans which typically necessitate substantial collateral. Additionally, this establishment also helps to streamline the process of mobilizing domestic resources, creating alternative avenues for saving and investment, accessing alternative sources of finance, attracting a greater number of domestic and foreign investors, and facilitating the ongoing and future privatization objectives of the country. As well, it also promotes efficient financial system, allow de-concentration of ownership, improve accounting and auditing standards, provide effective tools for monetary and fiscal policy and help privatization efforts by the government. This in turn contributes to the economic growth of the country. All of the surveyed managers have indicated that the need for stock market in Ethiopia is high. The response demonstrates that

there exists an ample degree of consciousness and understanding pertaining to the advantages and fundamental principles of stock exchange markets within the nation. Share Companies address the issue of adherence by incorporating a clause in the agreement, which absolves the shareholders from any obligation to repurchase the shares, and by facilitating their acquisition by potential buyers, such as brokers.

Legal infrastructural factors of a stock exchange markets is concerned with the protection of investors, efficiency of markets and reduction of systematic risk. Most of the respondents respond that legal infrastructural factors do not influence the establishment of stock market in Ethiopia. All respondents answer that accounting and auditing standards do not influence the practice of ownership transfer. On the macroeconomic stability, most of the respondents have stated that macroeconomic condition will affect stock market establishment. All respondents agree that the establishment of stock market or the practice of ownership transfer is influenced by increase in the cost of living due to high rates of inflation, low income and saving capacity of individuals and low domestic investments and productions. Absence of the proper institutions that could facilitate the trade affects the practice of ownership transfer, and low level of public awareness and trust about stock markets also influences the practice of ownership transfer.

The potential or possibilities for the establishment of a stock market in our nation encompass the objective of reducing poverty within the country, the augmentation in both the magnitude and quantity of Share Companies, the rise in the number of specialists, advancements in the banking and other financial domains of a nation, the ongoing economic development and expansion, the escalation in the proportion of domestic savings, as well as the nation's foreign relations and policies.

6.2. Analysis of data collected from Shareholders

Table 3: General information of shareholders

Description		Number of respondents	Percentage
Gender	Male	64	76.2
	Female	20	23.8
	Total	84	100
Age Group	< 20	0	0
	20-30	31	37
	31-40	25	29.76
	41-50	24	28.57
	51-60	0	0
	>60	4	4.76
Total	84	100	
Educational Status	Illiterate	0	0
	1-4 grade	2	2.38
	5-12grade	20	23.8
	Certificate and above	62	73.8
	Total	84	100
	Civil service	14	16.67
	Trade	40	41.61

Current job	Agriculture	12	14.28
		2	2.38
	Information technology		
	Mechanical	2	2.38
	Accounting	4	4.76
	Banking	10	11.9
	Total	84	100
How long you are a stock holder?	< 1 year	6	7.14
	1-3 years	22	26.2
	3-5 years	24	28.57
	>5 years	32	38
	Total	84	100

Source: Survey result, 2022

Based on the expected growth of financial sector	4	4.76
By the status of a company in the country	10	11.9
By the profitability of a company and expected dividend per share of a company	40	47.6
Based on the par value and stated value of a share	14	16.67
Total	84	100
4. At what circumstances and interval your company issues the share?		
3 - 6 months	10	11.9
1 - 2 years	20	23.8
3 - 5 years	16	19
No fixed interval; whenever a company's management planned to increase share capital	20	23.8
No fixed interval; whenever shareholders of a company required acquiring additional shares and BOD approved the questions.	18	21.4
Total	84	100
5. When you decided to sell the shares, to whom to sell?		
Selling back to the issuing company	22	29.2
To shareholders of issuing company	18	21.4
Selling to brokers or through brokers	34	40.47
To family members	10	11.9
Total	84	100
6. How do you find the potential buyers for your shares?		
Through discussion with potential buyers of shares	38	45.23
Through advertisement made by the issuing company	10	11.9
By using brokers	22	29.2
By requesting the issued company to repurchase the shares through face-to-face discussion and calling them	14	16.67
Total	84	100
7. Did you face market problem when you were reselling the shares of companies?		
Yes	22	26.2
No	62	73.8
Total	84	100
8. If your answer to question no. 7 is yes, what you finally decided?		
Holding the shares	8	36.36
Selling the shares by brokers	10	45.45
I told my friend to find the potential buyers	4	18.18
Total	22	100
9. If your answer to question no. 7 is no, how you find the buyers to sold your shares?		
By internal advertisement and price determined by the company's board of directors.	22	35.5
Through brokers at price twice the par value of the share	12	19.35

Table 4: Existing practice of ownership transfer in Ethiopia

Description	Number of respondents	Percentage
1. For what purpose you have purchased the shares of a company?		
To establish a company	4	4.76
To obtain a source of income (dividend)	56	66.67
To earn gain on sale of securities when their price appreciate	12	14.28
To establish a company and to earn profit	6	7.14
To provide the shares as a gift	4	4.76
To accumulate permanent source of income for children	2	2.38
Total	84	100
2. Where and how you have purchased the shares of a company?		
Through brokers paying the commission	8	9.5
By hearing/reading advertisement made by the issuing company through social medias, and directly from the company on percent basis	46	54.7
In the form of stock bonus from the share company	4	4.76
When the company offers the opportunity to purchase the shares before new investors	8	9.5
From other shareholders	4	4.76
From the country's private banks and public banks and other agents of the issuing company	14	16.67
Total	84	100
3. How did you determine the price of share to purchase from the issuing company?		
Based on the expected number of company's shareholders and authorized shares to be issued	16	19

By bargaining with buyers at existing market price	28	45.16
Total	62	100
10. Do you think that the need for establishment of stock market in Ethiopia is important?		
Yes	84	100%
No	0	0%
Total	84	100
11. Was it easy to purchase or sale shares to investors?		
Yes	20	23.8
No	64	76.2
Total	84	100
12. If your answer is no for question 10, what were the challenges?		
Lack of fair and appropriate price	18	21.42
The payment of large amount of brokers' commission	34	40.47
Difficulty of obtaining buyers	32	38
Total	84	100
13. Is there any compliance from the issuing company to sell the shares back to them?		
Yes	24	28.57
No	60	71.42
Total	84	100
14. If your answer is yes for question 13, what were the reasons of complains?		
The company hesitate to repurchase the shares by believing that other shareholders may not purchase them	30	35.71
Lack of interest to share the ownership interest to other company's shareholders	54	64.28
Total	84	100

Shareholders invest on the shares of different companies to obtain a source of income (dividend) and to earn gain on sale of securities when their price appreciates. The study reveals that most shareholders purchase shares by hearing/reading advertisement made by the issuing company through Social Medias and directly from the company on percent basis, and from the country's private banks, public banks and other agents of the issuing company. The finding indicates that most shareholders determine the price of shares on the basis of profitability of a company and expected dividend per share of a company, expected number of company's shareholders and authorized shares to be issued, and par values or stated values of the shares.

Most of the shareholders sell their shares to brokers or other parties through brokers. This study indicates that shareholders who decided to sell their shares find buyers through discussion with friends, relatives and other buyers, and through brokers. As the above table shows, 73.8 % of

shareholders did not face market problem and they find the buyers through internal advertisement at price determined by the company's board of directors or by bargaining with buyers based on existing market price of the share.

The analysis implies that most of the respective managers in the share companies believe that establishment of stock exchange in our country at this time helps to easily sell and buy shares, to fill the gap of bank loans which require huge collaterals, to facilitate the mobilization of domestic resources, to create alternative channels for saving and investment, to obtain alternate source of finance, to attract more domestic and foreign investors and to facilitates ongoing and future privatization goal of the country. As well, it also promotes efficient financial system, allow de-concentration of ownership, improve accounting and auditing standards, provide effective tools for monetary and fiscal policy and help privatization efforts by the government. This in turn contributes to the economic growth of the country. To most of the shareholders (76.2%), it is difficulty to purchase or sale shares primarily because of the payment of large amount of brokers' commission and difficulty of obtaining buyers. As well, there is no compliance from the issuing companies to sell the shares back to them. The study reveals that the absences of well-organized market for share trading tending to frustrate the existing shareholders and discouraging the new shareholders to get into share company business.

As per the results of the study, the legal factors that potentially affect the establishment of stock exchange market or the practice of ownership transfer include the degree of stability, peace and internal security of a country, inadequate laws and regulations. Lack of good regulation and supervision that provides protection investor from (the potentially opportunistic behavior of insiders) solves agency problems and information asymmetry arising from inside information and deficient corporate governance affect the willingness to invest negatively. Public authority is responsible for securities regulation to protect investors and the economy from malpractice. The finding of the study shows accounting and auditing standards influence the practice of ownership transfer. On the macroeconomic stability, macroeconomic condition affects stock market establishment. The establishment of stock market or the practice of ownership transfer is influenced by increase in the cost of living due to high rates of inflation, low income and saving capacity of individuals, and low domestic investments and productions. The study reveals that technological infrastructure influences the establishment of stock market in the country. Insufficient technological infrastructure such as ICT influences the ownership transfer practice of the country; lack of competent experts in the financial sector and limited number of companies in the industry also challenges the establishment of stock market. The analysis shows that the absence of the proper institutions that could facilitate the trade, and low level of public awareness and trust about stock markets influences the practice of ownership transfer. The

establishment of a stock market in the country can be seen as a means to achieve the poverty reduction goal of the nation. Furthermore, it can lead to an increase in the size and number of Share Companies, as well as an increase in the number of experts in the field. Additionally, the development of the banking and other financial sectors within the country plays a significant role. The current economic development and growth can also contribute to the opportunities for establishing a stock market. Moreover, the increase of foreign investment in the nation and the inflow of the nation's citizens who were abroad can have an impact. Lastly, the nation's foreign relations and policies can also play a part in shaping the opportunities for a stock market establishment.

7. Conclusions and recommendations

The establishment of the ECX will introduce a new era in Ethiopia's financial industry and economy. FSD Ethiopia and EIH, who are now responsible for establishing ESX, must exert considerable effort to actualize the creation of a prosperous stock exchange in Ethiopia, which will be a momentous milestone. It would be advantageous if the stock exchange brings about a tangible transformation in the economy. The stock exchange will serve as an ideal alternative source of financing for Ethiopia's economy, wherein access to finance remains a hindrance to growth. Moreover, it will play a crucial role in long-term financing, which is currently lacking in Ethiopia. The banks currently only finance short-term businesses. Additionally, the stock exchange can serve as a means of financing for the government through the issuance of bonds, as well as for banks themselves.

Nevertheless, Ethiopia has not yet begun the crucial task of establishing a stock market, which entails the creation of essential entities such as rating agencies, intermediaries, broker firms, investment arms, and other vital components necessary for a thriving stock exchange ecosystem. The implementation of real-time data generating systems, international corporate governance and financial reporting in initial public offerings (IPOs), and the training of personnel are significant endeavors that have yet to be addressed. The initiation of the necessary legal frameworks, the establishment of the required institutional infrastructure, and the development of the essential expertise to operate a stock exchange should have commenced earlier. Now, there is a sense of urgency. However, this is unquestionably one of the most noteworthy policy measures ever implemented by the government, signifying a significant turning point for both the financial sector and the economy.

Ethiopia lags behind and is among a small number of countries that lack secondary capital markets. Given Ethiopia was under a communist regime and anti-capitalist three decades ago, Ethiopia is catching up on its own timeline. Once the stock exchange is operational, we will be searching for innovative financial corporations and

intermediaries in Ethiopia. The country will be able to provide finance for start-ups, mainly potential Fintechs. They are the ones in which all the finances in the stock exchange will be invested. There are different companies trying to mobilize funds. Hence, it is feasible to invest in them and subsequently list them on the stock exchange once they experience growth. Moreover, it is also feasible to concentrate on start-ups and investments in renewable energy, technology innovation, and other businesses. The nation has the option to seek local capital providers, who will take the funds and invest them in businesses. They possess information about the businesses and startups that hold promise.

Regarding Initial Public Offerings, there exist numerous companies in Ethiopia that possess the potential to be listed on the stock market, once it has been operationalized. For example, banks, insurance firms, state-owned enterprises, international hotel brands in Ethiopia, and other business ventures have the possibility of being listed as Initial Public Offerings. The prosperity of the stock market is contingent upon the level of investment Ethiopia will allocate to the necessary institutions responsible for establishing a stock market. It is widely recognized that the stock market serves as a catalyst for economic growth in other nations. The introduction of a stock exchange offers an array of advantages. Upon examining the experiences of Kenya and Mauritius, it is evident that they have attained a certain level of sophistication in the realm of stock exchange. However, even they admit that their stock markets are not as dynamic as they aspire them to be. It would be imprudent to compare this situation with that of Ethiopia, a nation endeavoring to establish such a market for the first time.

Ethiopia has the potential to make significant advancements in the field of stock exchange through the adoption of the latest stock exchange model. The fact that Ethiopia is a late entrant in the stock exchange realm has shielded us from the fluctuations and uncertainties. Consequently, there is no necessity to reinvest in novel models. Presently, the nation can rely on the experiences and achievements of other countries to construct a contemporary and efficient stock exchange model. FSD Ethiopia can provide invaluable expertise, accumulated over the years, by supporting numerous economies across the globe. In addition to serving as an alternative source of financing for entrepreneurs, start-ups, corporations, and the government, the stock market is also anticipated to fundamentally transform Ethiopia's economy. It's of great benefit if stock market is designed in a way it can become a source of finance for the private sector, not an arm of the government to fill budget deficits. To that end, especially the roles of EIH in the upcoming stock market need to be clearly legislated. Through the initiation and development of stock market, it's possible to change the existing challenges of ownership transfer or stock exchange in Ethiopia.

Acronyms

CBE - Commercial Bank of Ethiopia	JSE - Johannesburg stock exchange
CMA - Capital Market Authority	MoF - Ministry of Finance
EIH - Ethiopian Investment Holding	NYSE - New York Stock Exchange
ESX - Ethiopian Securities Exchange	OTC - Over-The-Counter
FSD - Financial Sector Deepening	SOE - State-Owned Enterprise
FSDA - Financial Sector Deepening Africa	SSE - Shanghai Stock exchange
FX - currency exchange	TSE - Tokyo stock exchange
ICT - Information and Communications Technology	USD - United States Dollar
IPO - Initial Public Offering	

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APPENDIX 1: The importance of stock market and challenges of stock transfer

The importance of stock market in Ethiopia	Strongly disagree		disagree		Neutral		Agree		Strongly Agree	
	No.	%	No.	%	No.	%	No.	%	No.	%
It contributes to the economic growth of the country	0	0	0	0	0	0	6	75	2	25
It helps to easily sell and buy shares	0	0	0	0	0	0	5	62.5	3	37.5
The securities market can fill the gap of bank loans which require huge collaterals	0	0	0	0	2	25	3	37.5	3	37.5
The securities market can facilitate the mobilization of domestic resources	0	0	0	0	0	0	7	87.5	1	12.5
The securities market creates alternative channels for saving and investment	0	0	0	0	0	0	2	25	6	75
It serve as an alternate source of finance	0	0	0	0	0	0	5	62.5	3	37.5
It helps to attract more domestic and foreign investors	0	0	2	25	0	0	3	37.5	3	37.5
The security market facilitates ongoing and future privatization goal of the country	0	0	0	0	0	0	6	75	2	25
Promote efficient financial system	0	0	0	0	0	0	5	62.5	3	37.5
Allow de-concentration of ownership	0	0	0	0	0	0	7	87.5	1	12.5
Improve accounting and auditing standards	0	0	1	12.5	3	37.5	0	0	4	50
Provide effective tools for monetary and fiscal policy	0	0	1	12.5	0	0	7	87.5	0	0
Help privatization efforts by the government	0	0	0	0	0	0	2	25	6	75
It provides job opportunities	0	0	1	12.5	0	0	4	50	3	37.5
It provides practical base for academic institutions	0	0	1	12.5	0	0	5	62.5	3	37.5
Factors that create challenges for the practices of ownership transfer										
The absences of well-organized market for share trading tending to frustrate the existing shareholders and discouraging the new shareholders to get into share company business.	0	0	0	0	2	25	3	37.5	3	37.5
The degree of stability, peace and internal security of a country	0	0	0	0	0	0	6	75	2	25
Inadequate laws and regulations	0	0	2	25	2	25	4	50	0	0
Low democratic accountability, corruption and bureaucratic quality	0	0	3	37.5	3	37.5	0	0	2	25
Absences of the legal framework	0	0	5	62.5	2	25	1	12.5	0	0
Lack of clarity, lack of understandable, and inconsistent with relevant laws and regulations	0	0	4	50	3	37.5	1	12.5	0	0
Absence of articulated legal basis for its activities to relevant authorities and participants	0	0	3	37.5	5	62.5	0	0	0	0
Lack of clear rules, procedures, and contracts those are enforceable in all relevant jurisdictions	0	0	7	87.5	0	0	1	12.5	0	0
Lack of good regulation and supervision that provides protection investor from (the potentially opportunistic behavior of insiders) solves agency problems and information asymmetry arising from inside information.	0	0	0	0	3	37.5	4	50	1	12.5
Deficient corporate governance will affect the willingness to invest negatively	0	0	0	0	2	25	6	75	0	0
The public authority is responsible for securities regulation to protect investors and the economy from malpractice	0	0	0	0	0	0	3	37.5	5	62.5

Inappropriate applications of internationally acceptable accounting and auditing standards	0	0	5	62.5	3	37.5	0	0	0	0
Increase the cost of living due to high rates of inflation	0	0	0	0	0	0	6	75	2	25
Low income and saving capacity of individuals	0	0	0	0	0	0	7	87.5	1	12.5
Low domestic investments and productions	0	0	0	0	0	0	6	75	2	25
Insufficient technological infrastructure such as ICT	0	0	0	0	2	25	6	75	0	0
Lack of competent experts in the financial sector	0	0	2	25	2	25	4	50	0	0
Limited number of companies in the industry	0	0	5	62.5	3	37.5	0	0	0	0
Absence of the proper institutions that could facilitate the trade	0	0	0	0	0	0	7	75	1	25
Low level of public awareness and trust about stock markets	0	0	3	37.5	0	0	0	0	5	62.5
Poverty reduction goal of the country	0	0	3	37.5	0	0	0	0	5	62.5
Increasing in the size and number of Share Companies	0	0	0	0	2	25	0	0	6	75
The increasing in number of experts	0	0	0	0	3	37.5	1	12.5	4	50
Development in banking and other financial sector in a country.	0	0	0	0	0	0	7	87.5	1	12.5
Current economic development and growth	0	0	0	0	0	0	3	37.5	5	62.5
Increase in the rate of domestic savings	0	0	0	0	0	0	2	25	6	75
Increasing in number and quality of higher education institutions which generate experts	0	0	0	0	5	62.5	3	37.5	0	0
Increase of foreign investment in the nation specially investment in industrial parks	0	0	0	0	5	62.5	0	0	3	37.5
Inflow of nation's citizens who were abroad	0	0	0	0	5	62.5	0	0	3	37.5
The nation's foreign relations and policies	0	0	0	0	2	25	0	0	6	75

Source: Survey result, 2022

APPENDIX II: The need for stock market in Ethiopia

2. The need for stock market in Ethiopia	Strongly disagree		disagree		Neutral		Agree		Strongly Agree	
	No.	%	No.	%	No.	%	No.	%	No.	%
It contributes to the economic growth of the country	6	7.14	0	0	12	14.28	34	40.47	32	38
It helps to easily sell and buy shares	0	0	10	0	12	14.28	50	59.5	12	14.28
The securities market can fill the gap of bank loans which require huge collaterals	0	0	6	7.14	8	9.5	52	61.9	18	21.42
The securities market creates alternative channels for saving and investment	4	4.76	4	4.76	2	2.38	38		36	

								45.23		42.85
It serve as an alternate source of finance	0	0	0	0	6	7.14	44	52.38	34	40.47
It helps to attract more domestic and foreign investors	0	0	8	9.5	2	2.38	34	40.47	20	23.8
The security market facilitates ongoing and future privatization goal of the country	6	7.14	8	9.5	8	9.5	36	42.85	26	30.95
Promote efficient financial system	0	0	6	7.14	10	11.9	48	57.14	20	23.8
Allow de-concentration of ownership	4	4.76	8	9.52	4	4.76	38	45.23	30	35.7
Improve accounting and auditing standards	4	4.76	6	7.14	12	14.28	38	45.23	24	28.57
Provide effective tools for monetary and fiscal policy	2	2.38	10	11.9	10	11.9	38	45.23	22	26.19
Factors that creates challenges for the practices of ownership transfer										
The absences of well-organized market for share trading tending to frustrate the existing shareholders and discouraging the new shareholders to get into share company business.	8	9.5	16	19	8	9.5	40	47.6	16	19
The degree of stability, peace and internal security of a country	6	7.1	6	7.1	10	11.9	44	52.4	18	21.4
Inadequate laws and regulations	6	7.1	12	14.3	12	14.3	32	38	22	26.2
Low democratic accountability, corruption and bureaucratic quality	4	4.7	8	9.5	10	11.9	38	45.2	4	4.7
Lack of good regulation and supervision that provides protection investor from (the potentially opportunistic behavior of insiders) solves agency problems and information asymmetry arising from inside information.	14	16.6	6	7.1	4	4.7	48	57.14	12	14.3
Deficient corporate governance will affect the willingness to invest negatively	6	7.1	0	0	10	11.9	48	57.14	20	23.8
The public authority is responsible for securities regulation to protect investors and the economy from malpractice	8	9.5	8	9.5	10	11.9	44	52.38	14	16.67
Inappropriate applications of internationally acceptable accounting and auditing standards	8	9.5	2	2.3	10	11.9	48	57.14	16	19
Increase the cost of living due to high rates of inflation	6	7.1	2	2.3	12	14.2	46	54.7	18	21.4
Low income and saving capacity of individuals	16	19	4	4.7	6	7.1	44	52.38	14	16.67
Low domestic investments and productions	10	11.9	4	4.7	10	11.9	44	52.38	16	19
Insufficient technological infrastructure such as ICT	8	9.5	4	4.7	12	14.3	40	47.6	20	23.8
Lack of competent experts in the financial sector	6	7.1	18	21.4	14	16.6	32	38	14	16.6
Limited number of companies in the industry	8	9.5	22	26.2	12	14.3	34	40.5	8	9.5
Absence of the proper institutions that could facilitate the trade	8	9.5	10	11.9	10	11.9	40	47.6	16	19
Low level of public awareness and trust about stock markets	12	14.2	14	16.6	12	14.3	42	50	4	4.7
Poverty reduction goal of the country	10	11.9	6	7.1	8	9.5	42	50	18	21.4
Increasing in the size and number of Share Companies	2	2.3	12	14.3	8	9.5	42	50	20	23.8
The increasing in number of experts	4	4.7	14	16.6	6	7.14	40	47.6	18	21.4
Development in banking and other financial sector in a country.	4	4.7	6	7.1	2	2.3	54	64.3	18	21.4

Current economic development and growth	12	14.3	6	7.1	6	7.14	46	54.7 6	20	23.8
Increase of foreign investment in the nation	14	16.6	4	4.7	4	4.7	42	50	20	23.8
Inflow of nation's citizens who were abroad	8	9.5	8	9.5	2	2.3	42	50	24	28.5
The nation's foreign relations and policies	4	4.7	14	16.6	4	4.7	40	47.6	22	26.2
It contributes to the economic growth of the country	6	7.14	0	0	12	14.28	34	40.4 7	32	38

Survey result, 2022

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