International Journal of Financial Management
12 (2) 2022, 01-25
http://publishingindia.com/ijfm/

Submitted: 17 November, 2021
Accepted: 12 May, 2022

Assessment of Potential Equity Investors and Stock Marketing Strategies: An Empirical Study in the Case of Ethiopia

Dakito Alemu Kesto*

Abstract

A stock market, equity market, or share market is the aggregation of buyers and sellers of stocks, which represent ownership claims on businesses; these may include securities listed on a public stock. Though several studies, by different individuals and institutions, to assess the rationale behind establishing stock has been undertaken on the exchange market in Ethiopia, no one has examined how corporations should finance their assets in the absence of efficient capital markets. Thus, the objective of the study was to assess potential equity investors, and thereby develop marketing strategies for share companies' equity instruments in Ethiopia. The finding shows that the potential equity investors in Ethiopia could be ranked as financial institutions, diasporas and institutional investors, respectively. Accordingly, the marketing strategies that firms should employ include approaching the potential investors physically, advertising using different mass-media and Internet, and participating in national and international business forums.

Keywords: Potential Investors, Equity Investors, Stock Exchange Marketing, Institutional Investors

Introduction

In Ethiopia, the private sector has gained more prominence since 1991, after the socialist Derg regime was replaced. The subsequent government introduced market reforms with a view to stimulate growth through a vibrant private sector. Developing the country's private sector and productive small and medium enterprises is thus a key policy challenge. A more productive private sector in turn expands employment and contributes taxes necessary for public investment in health, education, and other services. Besides this, developed financial markets provide payment services, mobilise deposits, and ease investment financing for the private sector. Efficient financial markets help reduce the reliance on internal funds and capital flow from informal sources such as family and friends, by connecting firms to a broad range of lenders and investors. However, because of the absence of efficient capital markets in Ethiopia, particularly the secondary stock exchange market, firms, especially the new share companies, are suffering challenges from lack of access to finance. On the other hand, in the absence of capital market, Ethiopia is still one of the fastest growing economies in the world. It has registered an impressive GDP growth, ranging between 8% and 12% (U.S. Department of State, 2015). The World Bank and IMF forecast continued average growth of 7.5% to 8.5% in 2015 and approximately 7% to 7.5% over the next three years (Ibid).

Sustainable financing will need to rely on domestic financial systems, and ultimately on domestic investors, to mobilise savings and channel them into productive investment. The structure of financial systems in many developing countries, especially in Ethiopia, tends to be dominated by the banking system, whose financing is generally short-term in nature and therefore not well suited for covering firms' long-term financing needs. Thus, the need for deeper capital markets that could provide a conduit for the long-term investment is crucial. Although access to domestic credit market in Ethiopia is tough, the financial sector plays an essential role in providing and channeling short-term financing for investment (Dakito Alemu, 2017). The importance of long-term finance lies in its pivotal role in satisfying long-term investment needs across all sectors in the economy, and specifically in the key drivers of growth, competitiveness and employment, such as the infrastructure, real estate, R&D, and new ventures. Unlike individual investors, equity investors

* Head, Accounting & Finance Program Unit, School of Commerce, CoBE, Addis Ababa University, Ethiopia.
Email: dalemu22@gmail.com

such as foreigners, particularly institutional equity investors, are looked at as a potential source of financing for new ventures, as long as they hold adequate amount of excess financial resources.

On the other hand, a domestic institutional investor base, including domestic pension funds and cooperative associations, could provide a more stable source of investment. However, the presence of institutional investors in developing countries is still significantly lower than in high-income countries. In developing countries, building an institutional investor base requires upgrading expertise and skills, as well as reforms in licensing and changes to security laws. Another important policy concern is that, in many developing countries, the contribution of domestic institutional investors to the development of markets for long-term financing of productive projects has been limited, as they have invested large portions of their portfolio in bank deposits and public bonds, rather than in equity or corporate bonds. This has been the case for example in Latin America, where pension fund assets under management is around 30 per cent of GDP, whereas 26 per cent of their portfolio is invested in public bonds and only 13.5 per cent in firm's equity (Boletín Estadístico AIOS, 2010). Ethiopia is not an exception to this; for example, as per the current regulation, all non-government banks are forced to invest the equivalent of 27% of each loan made in National Bank of Ethiopia (NBE) bonds (USA Department of State, 2015), which implies that having institutional investors that manage large volumes of savings is not enough to ensure the channelling of such savings towards productive investments in the domestic economies. Hence, companies need to adopt strategies to market the stocks, to attract and convince potential investors.

According to the 1960's commercial code of Ethiopia, there are six forms of business organisation. In substance, the forms of business organisation in the country could be categorised as family owned and public organisations or corporations. Although a majority of the businesses are family owned, share companies are more profitable as a result of their core competency in terms of management composition and resource utilisation. In principle, it is assumed that share companies are more effective than family-owned businesses because of management experiences and huge financial resource mobilisation. Therefore, for a country to grow consistently, and thereby maximise societal wealth, establishing a corporation by mobilising or pooling financial resources from different individuals and institutions is irreplaceable. However, the current situation in Ethiopia is not welcoming or convenient in issuing shares, as a result of stock exchange market absence. Hence, this research article focuses on identifying potential equity investors and developing stock marketing strategies for companies.

As indicated in the findings, although difficult to conclude that the amount is sufficient, the overall gross domestic savings, as well as gross national savings in the country has been increased during the period under study; in particular, the share of the private sector was insignificant. Moreover, the amount of remittance and foreign direct investment (FDI) in the country has been increased from time to time. In general, 2009-10 could be considered as a turning point for the overall good performance of the Ethiopian economy, as indicated by the dramatic progress in terms of the real GDP growth, gross fixed capital formation (investments), gross domestic savings, the amount of remittances, private savings, and per capita real GDP, which has laid a fertile ground for investment. In the present era of increasing global human and capital flows, diasporas' contribution to the development of their home countries' economy is crucial. Nowhere is the role of the diaspora in sustaining local livelihoods and supporting national development as evident as it is in Africa, where about 40% of the population still lives in poverty. Innovative development financing that includes original engagement from the diaspora remains at the front position of policy debates. The new 2030 Agenda for Sustainable Development of the United Nations highlights the positive contribution of migrants and diaspora for achieving sustainable development. The Addis Ababa Action Agenda on financing new sustainable development goals that were defined during the Summit on July 2015 includes a target of reducing the transaction cost of remittances to 3% by 2030. As of 2014, the global cost of sending $200 averaged at around 8% of the sum sent, whereas the costs of sending remittances to Africa remained close to almost 12% (The World Bank, 2014).

Rationale of the Study

Ethiopia's growth was based on high levels of public investment in infrastructure, while private sector drivers of growth have been neglected (IMF, 2012). Growth

accounting revealed that public investment accounted for most of the growth recorded since the mid-2000s, specifically in 2011-2012 (Ibid). In contrast, in the rest of Sub-Saharan Africa (SSA), expansion has been driven by commodity prices, both public and private investment, and robust private consumption. The heavy reliance of Ethiopia's economic performance on public investment and the burden it has put on the country's public finance has raised questions about the sustainability of the country's growth. To achieve high and sustained growth and reach middle-income status by 2025, the private sector will need to drive growth.

The Ethiopian economy has continued to record strong growth despite challenges arising from both internal and external factors. The external factors were largely associated with the international commodity prices and decreasing net services, which led to a widening current account deficit, while internal factors consisted of growing demand for foreign exchange to finance mega projects (NBE, 2014/15). Ciuriak (2010) found that the very small number of Ethiopian firms represented an important obstacle to its trade development; the presence of the few firms implies many missing markets. The empirical findings also establish that increased access to finance contributes to growth at the individual-firm level (Rajan & Zingales, 1998; Demirguc-Kunt & Maksimovic, 1998). More recently, Beck et al. (2005) used website (WBES) data to find that firms that complain about lack of access to finance actually have lower growth rates. Analysing firm surveys in countries of the East African community, Ojah et al. (2010) provide robust evidence that external and internal finance channels enhance firms' decision to invest in fixed capital. Similarly, Nkurunziza (2010) uses firm-specific data on the Kenyan manufacturing sector to find that firms that use credit grow faster compared to those that do not. Looking at the cost of capital, Ayyagari et al. (2008) found that although firms perceive many specific financing obstacles, such as lack of access to long-term capital and collateral requirements, only the cost of borrowing directly affects firm growth.

The practice has proved that access to finance is an impediment to increased Ethiopian domestic private investment, particularly to finance new projects that demand long-term finance. While credit is available to investors on market terms, at more than 100 per cent collateral requirement it limits the ability of some investors to take advantage of business opportunities (USA Department of State, 2015). This might be the result of strict regulation of the existing financial system in the country, which is mainly dominated by the banking sector. Moreover, structural weaknesses in the banking sector are leading to bad de-leveraging in the form of restrained credit growth. This is causing a growing mismatch between the amount and time horizon of available capital and the demand for long-term finance in the country. The new banking regulations (Basel accord III and the minimum paid-up capital requirements set by NBE) could also negatively affect the ability of banks to provide long-term financing, though it might minimise the risk of bankruptcy. Ethiopia currently has 18 banks – two state-owned (after CBE and CBB were merged) and 16 privately-owned. Even though the numbers of private banks have been increasing periodically, an April 2011 measure forcing non-government banks to invest the equivalent of 27% of each loan made in National Bank of Ethiopia (NBE) bonds has contributed to liquidity shortages that have reduced the ability of banks to lend to the private sector (USA Department of State, 2015). In general, private investors' investment strategy preference in the country is based on maximising risk-adjusted returns, which is a short-run investment. The goal is not to invest in the highest returning long-term asset, but rather to invest in well-compensated risks. Theoretically, it is known that short-term investments are more likely safer than long-term investments. This implies that most investors, by default, prefer the former to the latter. Hence, much more policy direction and reinforcement is required from the government to promote long-term investments.

In 2011, the National Bank of Ethiopia raised the minimum paid-up capital required to establish a new bank from Birr 75 million to Birr 500 million, which effectively stopped the entry of newer banks in the market (USA Department of State, 2015). On top of this, foreign banks are not permitted to provide financial services in Ethiopia. The state-owned Commercial Bank of Ethiopia mobilised around 65.1% of the total bank deposits and provided more than 50.4% of total bank loans in the fiscal year 2012-13 (IMF, 2013). In other words, debt financing is almost impossible for new private businesses in Ethiopia, as long as pledging asset is required. Thus, the most preferable way-out for financing a new business in the country is through the public offering of stock. A public offering is the realisation of a dream for entrepreneurs, board members, and stockholders – a singular achievement that

demonstrates their success in building a strong business and creating value for owners, employees, and customers. However, the financial market in the country is crowded not only by share companies, but also by huge government projects that may continue to impact the market for the next 5-10 years. Of course, the success of an initial public offering depends on the future liquidity of the assets, which is manifested in the stock market. However, in Ethiopia, there is no efficient capital market, and sales or purchases of debt are heavily regulated. As a result, new businesses are critically facing project financing. On the other hand, there was no organised study done to assess the optimal financing strategy for new businesses in a country where there is a high financial impediment for the private sector, particularly in Ethiopia.

Objective of the Study

The main objective of the study is to assess the potential equity investors and develop stock marketing strategies for the share company in Ethiopia, where the stock exchange market is absent.

Specific Objectives

To attain the general objective, the researcher has developed the following specific objectives:

- To identify potential equity investors for private companies in Ethiopia.
- To analyse the investment (domestic as well as FDI) trend of different economic entities.
- To investigate the relationship between savings, FDI, and private transfer, with gross fixed capital accumulation (investment) in Ethiopia.
- To explore the challenges and prospects of the stock markets in Ethiopia.
- To develop road-mark strategies of marketing for share companies' equity instruments.
- To forward suggestions to private firms and policy makers.

Materials and Methods

To address the objective of the study, both quantitative and qualitative research approaches were employed. According to Creswell (2000), the use of the mixed approach, both quantitative and qualitative, is important to address the objective under study.

Data and Sample

Though much focus was given to the secondary data, primary data were also considered. The secondary data were collected from the National Bank of Ethiopia, investment agencies, and the Ministry of Finance and Economic Development of Ethiopia. For the econometric model, time series data on savings, Foreign Direct Investment (FDI), private transfer/remittances, and gross fixed capital formation, covering the time period 2000-01 to 2013-14, was used to analyse the relationship between the dependent variable (gross fixed capital formation or investment) and independent variable (gross domestic savings, FDI, and private transfer). In addition to this, primary data were collected through scheduled questionnaires and interviews with the key informant group, to develop stock marketing strategy.

Purposive sampling was used to collect primary data, whereas multiple-step sampling was used for gathering firm-specific secondary data, which is the annual financial report. In general, after clustering the business firms into nine clusters, financial data of 43 firms were included in the sample. However, only 23 firms were actually accessed. Moreover, the primary data were collected from 20 institutional investors through survey questionnaires and interviews with the key informant groups. Thus, firms considered for the purpose of the study were from cooperative businesses, transport operators, small and medium enterprises, public enterprises, tourism and travel, exhibition centres, and financial institutions.

Methods of Data Analysis

The variables included in this study to run the regression model were gross fixed capital formation, gross domestic savings, FDI, and private transfers. This data are processed using the STATA 16.0 for Windows econometric package. On the other hand, the descriptive analysis was made using different ratios, including fundamental security analysis and financial ratios. Using secondary data, different ratio analysis was carried out for the different firms included in the sample, to assess their investment potential. Furthermore, primary data collected through survey questionnaires and interviews were narrated using the quantitative analysis.

Descriptive Analysis

The descriptive analysis used includes different financial ratios and also a fundamental security analysis model. The use of financial ratios is a time-tested method of analysing a business' financial position. Wall Street investment firms, bank loan officers, and knowledgeable business owners all use financial ratio analysis to learn more about a company's current financial health, as well as its future potential. Hence, the descriptive statistics are mainly computed using the following financial ratios, such as liquidity, efficiency, and solvency ratios.

Econometric Model

In economics, capital accumulation is often equated with investment of profit-income or savings, especially in real capital goods. The concentration and centralisation of capital are two of the results of such an accumulation. Theoretically, it is known that the level of capital accumulation or investment in a given economy is affected by the level of gross domestic savings, as well as foreign direct investment (FDI) and private transfers or remittances in the form of cash or in kind. Thus, ordinary least squares (OLS) was used to show such a relationship in Ethiopia, because the theory describes the mechanism by which more savings leads to more economic growth, since savings leads to investment, which leads to capital formation, thus generating economic growth. This means, savings, private transfers, and FDI are the most important factors for the economy to grow and develop. As a result, multiple regression model was used and inferences were drawn based on the econometric results. The model is given as:

$$GFCF = f\,(GDS, FDI, PTR) \qquad (1)$$

Where:

GCF = Gross Capital Formation
GDS = Gross Domestic Saving
FDI = Foreign Direct Investment
PTR = Private Transfer

The theoretical expectation and behaviour of the parameter can be determined as the basis of the theoretical reasoning. In equation (1), gross domestic saving, foreign direct investment, and private transfer should have positive effects on the gross capital formation of a country. Hence, the model helps share companies' management to see the major or significant factors that affect capital formation or investment in the country and identify potential investors in the companies' equity instruments. The ordinary least square (OLS) estimation technique was adopted to examine and determine the effect of the independent variables on the dependent one. The ordinary least squares (OLS) is adopted because it has been used in a wide range of economic relationships with satisfactory results. From equation (1), the following linear equation was generated:

$$GFCF_t = \beta o + \beta_1 GDS_t + \beta_2 PTR_t + \beta_3 FDI_t \; + \varepsilon_t \qquad (2)$$

Where:

β_o, = Intercept

β_1, β_2, β_3 = Slope coefficients

e_t = Error term

Results and Discussion

As stated in the methodology part, the top-down fundamental security analysis approach was used to identify potential equity investors in Ethiopia.

Macroeconomic Analysis of the Country

Under this section, the study discusses the existing situation in the socioeconomic and political environment, such as trade and investment, foreign direct investment (FDI), infrastructures, and gross fixed capital formation in the country.

General Overview

According to Imbs and Wacziarg (2003), economic development is understood as involving a massive diversification of production, and the trade of developing new capabilities, as well as capitalising on existing ones. It involves the development of industries in increasing the productivity of the agricultural base, as well as the development of agricultural feedstock for downstream industrial development, which need a structural transformation of an economy. Unwelcome macroeconomic factors influence investment by making the expected returns more uncertain. Several studies show that the greater the level of instability, the lower the rate of private investment and growth. Of course, this is true as long as the level of risk a firm is supposed to bear in an unstable macroeconomic environment is high. In other words, instability increases the risk of firms' going into

bankruptcy, suffering from slower growth, or contraction of revenue, if political conflict ensues.

The policy environments in Ethiopia are supportive for the development of the private sector's role in many businesses. However, private sector development in the country is still impeded by shortage of finance. Ethiopia has consistently sought to leverage its agricultural base for industrial development. In line with the Agricultural Development Led-Industrialisation (ADLI) strategy, and building on the lessons learned from past plans and programmes, the Growth and Transformation Plan (GTP-I) continues to rely on agriculture as a major source of economic growth. According to Henok Assefa et al. (2012), the main constraints for the apparel industry in Ethiopia are poor trade logistics and access to trade finance. Although Ethiopia's public sector-led development strategy (Developmental State model) has delivered strong results over the past decade, it has been facing significant challenges in recent years.

A fundamental analysis of Ethiopia's investment programme indicates that, despite positive long-run growth effects, transition challenges and macroeconomic trade-offs are associated with different financing strategies. Heavy reliance on domestic bank borrowing may require substantial fiscal and macroeconomic adjustments, as well as entail a sharp increase in inflation. External commercial borrowing, on the other hand, may ease these adjustments, but at the cost of significant increases in debt to GDP ratios. The overall credit worthiness or performance of the country is not well, as clearly indicated by the grading of different institutions such as Moody, S&P, and Fitch. On May 2014, Moody has rated Ethiopia's credit worthiness a 'B+', while S&P and Fitch gave a 'B' (U.S. Department of State, 2015). These grades clearly show that the public debt instruments are not good or not investment bonds, but rather, they are junk bonds or more risky investment alternatives.

Political Environment in Ethiopia

Ethiopia is considered one of the most stable countries in the Horn of Africa. The Constitution of the country, adopted in 1995, provides for a multiparty political system. Elections are held by universal adult suffrage every five years. The Federal Democratic Republic of Ethiopia has a parliamentarian form of government, with a bicameral parliament which is comprised of the House of the Peoples' Representatives (HPR) and the House of the Federation (HoF). The House of the Peoples' Representatives is the highest authority of the Federal Government. The power of government is assumed by the political party or a coalition of political parties that constitutes a majority in the House of the Peoples' Representatives (HPR); and Ethiopia may well be considered a country with the lowest levels of crime and corruption among the less-developed countries. Its location in a volatile neighbourhood poses significant spill-over risks to Ethiopia's security situation and political stability. The border conflict with Eritrea remains unresolved, although outright conflict remains improbable. Furthermore, fragility in Somalia poses immediate security challenges. Ethiopia also plays a key role in the negotiations between Sudan and South Sudan, and in the South Sudan internal conflict under the auspices of the African Union's High-Level Panel. Religious extremism and issues related to the Renaissance Dam on the Nile River, especially with Egypt, remain a concern. On the other hand, in an effort to combat inflation, the government pursued a tight monetary policy stance using base money as the nominal anchor to control monetary expansion. This measure, in the context of a slowdown in global commodity prices, resulted in annual consumer price inflation of 7.9% in November 2013, compared to 39.2% and 15.6% in November 2011 and 2012, respectively. The government's determination to reduce inflation was further reflected in the pursuance of prudent fiscal policy focused on strengthening domestic resource mobilisation and reducing domestic borrowing.

Macroeconomic Environment of the Country

The Government of Ethiopia has formulated the five-year Growth and Transformation Plan (GTP) to carry forward the important strategic directions in maintaining a fast-growing economy in all sectors, and to become a middle-income country by 2025. Enormous efforts have been made in major key sectors to achieve the Millennium Development Goals (MDGs). As a result, the Ethiopian economy witnessed sustainable double-digit and broad-based growth. In 2012-13, real GDP grew by 9.7 per cent, moderately higher than the previous year. In the first four years of the Growth and Transformation Plan (GTP) implementation, the GDP had grown on average by about 10.1 per cent per annum. However, the actual growth rate is lower than the 11.2 per cent annual average growth rate target set for the entire GTP period (Ethiopian Investment Commission, 2015). Moreover, as indicated in the graph 7, the real GDP of Ethiopia has increased for the

period under study, as measured in absolute terms, which indicates that the economy is performing well. GDP is one of the most important economic measurements used by economists. Simply put, gross domestic product (GDP) is the total market value of all final goods and services produced annually within a country's borders. Generally speaking, the overall economic growth of the country has been highly associated with the performance of the agriculture sector. The industrial sector, which mainly comprises small and medium enterprises, accounts for about 12.4 per cent of GDP in 2012-13. Similarly, the service sector, comprising social services, trade, hotels and restaurants, finance, real estate, and so on, accounts for about 45.2 per cent of GDP in the same year (Ibid). This tremendous growth in the service sector in Ethiopia should be complemented by the MICE industry that could enhance the upward as well as the downward linkage between or among different sectors.

On the other hand, the gross domestic saving to gross domestic product ratio ranges between 8 to 22 per cent as indicated in Graph 1 and 2 (Appendix). Moreover, the ratio is periodically increasing during the study period; in particular, the gross domestic saving has dramatically increased since 2009-10 onwards. Similarly, the level of real gross domestic saving has increased from 2009-10 onwards, as indicated in Graph 2. Therefore, mathematically, it can be proved that the amount of gross domestic saving has also dramatically progressed since 2009-10. This indicates that, though difficult to conclude that the domestic savings is high, the level of gross domestic savings is promising in promoting investments.

Ethiopia's Geographic Location

Since 1991, the macroeconomic situation in Ethiopia has exercised a promising environmental situation, both in terms of fiscal as well as monetary policies. Apart from the political stability, the strategic location of the country gives different comparative advantages as a core competency to bear the market opportunities. As shown in Fig. 1, Ethiopia is located in a strategic geographic location; close to the centre, both to the west-to-east and north-to-south major business centres in the world. Hence, this geographic location offers many competitive advantages for firms looking for international businesses or customers, as they can easily access the market, and thereby attract customers and potential investors in the form of FDI. Ghirmay and Cadet (1998) identified the key factors responsible for the location of foreign subsidiaries: low unit labour costs, adequate economic infrastructure, large domestic markets, government regulations, and political instability in the host country. With respect to labour costs, a recent World Bank study affirms that Ethiopia is already cost-competitive with China in manufacturing textile and garments and other labour-intensive light manufacturing industries. Putting the picture together, Ethiopia has a unique opportunity to become the Workshop of Africa, the first truly significant labour-intensive manufacturing hub of the African continent. Most large companies currently have foreign subsidiaries supplying components to the parent company or producing the same goods or services. This has led to an increase in the volume of capital accumulation in the host country.

Ethiopia is connected with the world in a two-way street, i.e., Ethiopia is reaching out to the world and the world is coming to Ethiopia. Reforms in trade logistics are about to dramatically shrink the effective distance between Ethiopia and the global markets. Addis Ababa is already the main air hub for Africa and the home of Ethiopian Airlines, which already carries two-thirds of Africa's air freight and has just significantly extended its cargo capacity and range. The infrastructure programme now underway will stitch the country's internal economy together and connect that economy to the global markets with new, high-speed rail and road corridors. For international trade, this will position Ethiopian industrial parks closer to fully modern seaport facilities on the trade route. Ethiopia's location on the trade corridor has always been its natural advantage.

Gross Fixed Capital Formation

Fixed capital formation is an increase in physical capital stock of a country with an investment in social and economic infrastructure. The following Graph 3 and 4 briefly describe the trend of gross fixed capital formation in the country for the last 15 years, and also its relationship with foreign direct investment, private transfers/remittances, and foreign direct investments. As indicated in Graph 3 (Appendix), the amount of gross fixed capital formation or investment in Ethiopia was dramatically improved from time to time during the study period. Moreover, as indicated in Graph 4 (Appendix), the relationship among the variables considered in this study were positively correlated. In other words, gross fixed

capital formation moves in the same direction with the other variables such as foreign direct investment, private remittances, and gross domestic savings.

This result shows that the amount of capital formation or investment, be it private or public, depends on the level of FDI, GDS, and private transfer, citreous paribus. As a rule, the larger the total sum of capital invested, the higher the return on investment. The more capital one owns, the more capital one can also borrow and reinvest at a higher rate of profit or interest. Therefore, new businesses may use foreign investors as well as Ethiopian diasporas, in addition to domestic savings, to finance their investments.

Gross National Savings and Investment in Ethiopia

A good investment climate provides opportunities and incentives for firms to invest profitably, create jobs, and expand output, thereby increasing private investment and growth. On the other hand, investment depends on the level of gross national savings of a country. Gross national savings is derived by deducting final consumption expenditure from gross national disposable income, and consists of private savings (personal savings plus business savings), plus public savings (budget balance), but excludes foreign savings. Literature shows that the better the investment climate, the higher the levels of private investment. One of the parameters used to assess the investment climate in a given economy is access to finance, which is the cumulative effect of national savings. However, in developing countries like Ethiopia, businesses frequently operate in investment climates that undermine their incentive to invest and grow. Graph 5 (Appendix) clearly illustrates the level of public and private savings, and also the overall national savings in Ethiopia.

Businesses seek to maximise the risk-adjusted rate of return to investment after tax. Investment climate constraints depress the potential rate of return on investment, increase risk and/or prevent the entrepreneur from capturing the returns on offer (Ignacio Fiestas et al., 2011). According to the 2013 edition of the World Bank's Doing Business indicator, Ethiopia's overall 'Ease of Doing Business' rank is 127 out of 185 economies. Ethiopia's relatively low rank is mainly the result of its low scores in three sub-indices: 'getting credit', 'trading across borders', and 'protecting investors'. The first indicator is of limited importance to foreign investors, which rarely does source funding on the destination country's capital market. Contrary to this, for most domestic investors or entrepreneurs, domestic credit is the main source of funding for start-up businesses. Therefore, the level or amount of national savings is important to facilitate investment in the country. As shown in the above graph, even though difficult to conclude, the amount of gross national savings in Ethiopia has increased copiously during the period under study, despite the fall in the amount of public savings as manifested by budget balances, which is mostly deficit. Hence, compared to the public, the private sector could better finance investments in the country.

Foreign Direct Investment in Ethiopia

It is an undeniable fact that Ethiopia has made considerable progress in economic and social development since 1992, as a result of the implementation of favourable policies and strategies that are instrumental in improving the national economy. The Rural Development Policy and Strategy, the Industrial Development Strategy, and other sectoral policies and strategies have initiated a new push towards creating frameworks conducive for economic and social development. The Industrial Development Strategy focuses on export manufacturing, with priority given to textile and garments, leather and leather products, agro-processing, and small and micro-enterprises. Due to the investment-friendly environment created in the country, the inflow of foreign direct investment (FDI) has been increasing over the last 21 years. Graph 6 (Appendix) describes the total amount of capital invested by both domestic as well as foreign investors during the period 1993-94 to 2011-12.

The total capital invested in the economy has increased dramatically, except during 2008-09, because of the fact that the world economy experienced financial crises. However, since then, the level of investment, both domestic as well as private investment, has been rehabilitating. Regarding the pattern and trend in business activities during 1993 to 2011, a total of 56,421 investment projects with an aggregate capital of Birr 1.07 trillion were licensed by the Ethiopian Investment Agency and Regional Investment Offices. The shares of domestic, foreign, and public sector in approved investment projects were 84.1 per cent, 15.7 per cent, and 0.2 per cent, respectively. Of the total projects, about 11.4 per cent have become

operational. The rest were in implementation and pre-implementation stages. In terms of investment capital, Birr 424.1 billion originated from domestic investors, Birr 382.2 billion from foreign investors, and Birr 272.4 billion from the public sector. This shows that the contribution of foreign investors in the overall economy of the country, and also domestic investors in the form of knowledge and skill transfer, financing businesses, and so on, are indispensable. Table 1 (Appendix) shows the total number and amount investments (both by domestic as well as foreign investors) made in the country in the past 19 years.

The number and amount investment capital of approved projects has registered an average annual growth rate of 25 per cent and 32 per cent, respectively. Accordingly, out of the total investment projects licensed between 1993 and 2011, FDI's share is about 15.80 per cent. Similarly, the overall trend of investment in 2011, both the total number of projects and capital invested, has shown a slight increase. This proves that Ethiopia remains an untapped and an unexploited market for investors. Of the total origin of country of foreign investors, China, India, Sudan, Germany, Italy, Turkey, Saudi Arabia, Yemen, the United Kingdom, Israel, Canada, and the United States are the major sources of FDI (Ethiopian Investment Commission, 2015). Similarly, the amount of gross fixed capital formation or investments in gross domestic product (GDP) has increased during the study period; the amount recorded is in double digits. As a result of the various incentives provided by the government, the highest growth rate of investment activity witnessed in Ethiopia is expected to continue in the future.

Remittance from Ethiopian Diaspora

Remittances provide benefits at several levels. Many diaspora prefer to invest in their own countries in establishing small businesses, with the assumption that they might one day return and would need to have a source of local income. At the household level, recipients of remittances in Africa were found to have higher levels of education, were more likely to have some form of savings account, and a higher level of savings than those who were not receiving money from abroad. For example, research conducted by IFAD shows that about 10-20% of the USD40 billion remittance flow to Africa is saved or invested. Hence, one potential investment destination for the Ethiopian diaspora could be share companies' stocks. Graph 8 (Appendix) describes the private transfer or remittance from Ethiopian diasporas from 1987-88 to 2013-14. The amount of remittance has increased during the period under study. The remittance will have a positive impact on the overall economy in general, and also create an opportunity for businesses as well as Ethiopian diasporas to invest in companies' equity. Since the last few years, the attention of the Ethiopian government and donor agencies to the diaspora as potential development actors is at a boom. As a result of this, the amount of remittances in the country has increased dramatically from 2005-06. Remittances also seem to be more stable than other capital inflows; and household remittances can generate multiplier effects, which may lay the foundation for more sustainable poverty reduction, provided these flows are large and long-lasting, and other conditions are conducive to development (Newland et al., 2004).

Institutional Investors' Financial Analysis

This section describes the financial performance of institutional investors using different ratios. Using these ratios, the researcher could identify potential investors in the share company's stocks.

Liquidity Ratio

Liquidity ratios measure the ability of business firms to pay their current liabilities and current portion of long-term debts as they mature. Liquidity ratios assume that current assets are the principal sources of cash for meeting current liabilities and current portion of long-term loans. The higher the current ratio or capital adequacy ratio of the company, the lesser the difficulty the company faces in paying its obligations. As long as the different industries have been included in the sample, different ratios are used, as indicated both in Table 2 and Graph 9 (Appendix), to assess the financial liquidity of the companies. The formulas used to measure the liquidity of the sample companies were different. Quick ratio was used for transport, cooperative associations, tour and travel, and public enterprises, whereas, current ratio and capital adequacy ratio were used to measure the liquidity of small and medium enterprises and financial institutions, respectively. Financial institutions' liquidity, measured using adequacy ratio, was above the standard indicated in the methodology part. This means a capital adequacy

ratio above 8.1% is considered as good liquidity standing for financial institutions, as indicated by IMF and Basel Accords. In a similar vein, as a rule of thumb, a current ratio and quick ratio above 2.0 and 1.0, respectively, are considered as the most liquid businesses. As shown in both Table 2 and Graph 9, except the public enterprises, all firms are capable of financing their short-term operations in general. Small and medium enterprises and cooperative associations were the most liquid sectors. This proves the existence of fertile financial sources for new businesses if the management properly handles and lobbies these firms.

Operating Efficiency

Activity ratios measure the degree of efficiency with which the company utilises its resources. Efficiency is equated with rapid resource turnovers. The return on assets ratio is the relationship between the profits of the company and the total assets. It is a measure of how effectively the company utilised its assets, making a profit. As indicated in Table 3 and Graph 10 (Appendix), all firms considered in the study were efficient in terms of managing their financial resources during the study period, as indicated by the profitability measured by return on investment. The overall average rate of return on investment of firms considered in the study were 16%, 17%, 26%, and 16% for the period 2004 to 2007 E.C, respectively. In other words, the return on asset for all firms considered in the study was greater than 15 per cent, which indicates the efficiency and proper utilisation of assets. This proves the fact that most firms in the country, if approached properly, could invest some of the returns in share company's stocks.

Solvency Ratio

These ratios measure the extent to which a company finances itself with debt, as opposed to equity financing. These ratios are called solvency or capital structure ratios. They are also termed as financial leverage ratios. As indicated in Table 4 and Graph 11 (Appendix), all firms included in the sample were highly levered. Almost all firms considered in the study were highly levered and much of their assets were financed by creditors. This might imply two things; one, most firms in Ethiopia prefer and also access funds easily from creditors than owners and second, as long as these firms were highly financed by creditors, they may not be trustworthy to rely on their funds as the owner of the company.

Econometric Analysis

The coefficient of all independent and dependent variables are given in Table 8. Moreover, Table 7 summarises the overall performance of the model, as indicated by adjusted R-square and Durbin-Watson test. As indicated in Table 5 (Appendix), the model is strong, as manifested by the adjusted R-square. The adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The adjusted R-squared increases only if the new term improves the model more than would be expected by chance. It decreases when a predictor improves the model by less than expected by chance. However, as mentioned above, the value of the adjusted R-square is large and statistically significant to explain the dependent variable. On the other hand, the result of the Durbin-Watson (DW) test was less than three. In statistics, the Durbin-Watson statistic is a test statistic used to detect the presence of autocorrelation (a relationship between values separated from each other by a given time lag) in the residuals (prediction errors) from a regression analysis. The statistics range from 0 to 4, with 0 indicating positive autocorrelation and four indicating negative autocorrelation. Hence, given the SPSS output of the model, a DW coefficient of 2.9 does show absence of positive or negative autocorrelation. In other words, the variables included in the model briefly explain the model, and it can be said that the model is fit and no autocorrelation problem is present in the model. Therefore, it is possible to regress gross fixed capital formation to gross domestic savings, foreign direct investments, and remittances.

The coefficients of all independent variables included in the model were positive, except that of the constant, as indicated in Table 6 (Appendix). On top of this, the coefficients of all the independent variables were statistically significant at 99% confidence level. In other words, one unit (Ethiopian currency: Birr) increase in the amount of gross domestic savings, foreign direct investments, and remittances will increases gross fixed capital formation or investment by 1.36, 2.0, and 2177.5 Birr, respectively. This implies that the level of investment in the country, Ethiopia, is dependent on the domestic savings, foreign investors, and Ethiopian diaspora remittances. Therefore, from this, one can infer that the main sources of funding (potential investors) for share company stocks should be Ethiopian diasporas, domestic private investors, and foreign investors.

Potential Equity Investors in Ethiopia

In addition to the secondary data analysis (as prevailed using descriptive and regression model) used above, to identify potential equity investors, the study also used survey data. As per the primary data collected through survey questionnaires and unstructured interviews with different share dealers and stock sellers of share companies, the potential equity investors in Ethiopia were ranked in Table 7 (Appendix). Like the quantitative results of using secondary data, the survey results also proved that the potential source of capital for the private sector in Ethiopia are ranked from one to seven. Of the potential investors identified, financial institutions, institutional investors, Ethiopian diasporas, and foreign investors were ranked in the top four, respectively. Financial institutions in general and the banking sector in particular were ranked first because of the fact that the banking sector pools financial resources from different stakeholders in the form of savings. As indicated by the investment in government's short-term bond (treasury bill), the financial institution's contribution or share is significant, if not wholly invested. In other words, almost all the TBs issued by the Ethiopian government are bought by the FIs, particularly the banking sector. This could provide the evidence about the financial capability of the sector to invest/buy share companies' stock if properly approached. Of course, the investment by FIs in the different companies' share will have mutual benefits for both the issuing company, in the form of financing their operations and effective financial resource utilisation, and the investing company, (FIs), in the form of diversification of investments, thereby avoiding or minimising the investing company's overall risk.

On the other hand, because of the policy effect, many institutional investors', such as small and micro-enterprises (SME) and cooperative association's financial capacity are improving periodically, as indicated in the Appendix (see Table 2, 3, and 4). This implies that the role of institutional investors in providing equity capital for share companies could be significant. Moreover, as a result of economic liberalisation, the so-called globalisation, the amount of remittance from Ethiopian diasporas and also foreign direct investments (FDI) by foreign investors in Ethiopia have been dramatically increasing (see Graph 7 and Graph 9). Many international investors (individuals as well as firms) are currently investing aggressively, not only on real assets, but also in different financial assets, equity. Hence, one can infer that if appropriate stock marketing strategies are implemented or followed/used, share companies in Ethiopia could get equity capital from Ethiopian diasporas as well as from foreign investors, in addition to FIS and institutional investors. In general, the potential equity investors in Ethiopia, as identified both from primary and secondary sources of data, and analysed using descriptive and econometric models, are:

1st – Financial institutions, which includes pension funds, insurance companies, saving and credit associations, and banks.

2nd – Institutional investors such as small and micro-enterprises, cooperative associations, and so on.

3rd – Ethiopian diasporas.

4th – Foreign investors, both institutional and individual investors.

5th – Public enterprises.

6th – Individual investors or householders.

7th – State and regional governments.

Roadmap for Marketing Equity Instruments

After identifying potential equity investors, the last part of this study is to develop the stock marketing strategies for share companies. Before going to proceed to stock marketing strategies, first let us discuss issues related to the challenges and prospects of stock marketing in Ethiopia.

Challenges of Stock Marketing in Ethiopia

Stock marketing is the process of issuing new stock to finance business operations by share companies. However, stock marketing is challenged by different factors in Ethiopia. As the survey results show in the Table 8, there are six main factors that challenge stock marketing in Ethiopia. As indicated in Table 8 (Appendix), one of the main challenges for stock marketing in Ethiopia is lack of information about:

- The company issuing/selling the share.
- The importance of investment in the company's share, and
- The success history of share companies in the country.

Of course, all these factors or problems emanate from the existence of asymmetric information as a result of absence of stock exchange market in Ethiopia, where

such information about any listed company could be easily accessed, to make informed decisions. Therefore, the root cause of the stock marketing challenges in the country is the absence of a stock exchange market. Stock exchange or stock market is an organised market for the trading of stocks, bonds, and other securities. It provides a mechanism through which companies can raise capital for expansion purposes by selling and issuing securities (stocks and bonds). Stock exchanges are playing a great role in the investment process in developed countries such as the United States, the United Kingdom, Japan, and so many others, and have contributed to their development. However, since there is no formal stock exchange market in Ethiopia, different share companies have been facing problems or challenges while issuing shares. Moreover, the recent development in share companies is too young to provide success stories. In general, most investors in Ethiopia do not want to invest in long-term financial assets for many reasons, such as:

- Lack of trust in share companies because of their success history, which is not yet proven as they all are younger, not more than 25 years old; and
- Most investors consider short-term investments more feasible and promising than long-term investment. This is because of the fact that they do not want to accept any calculated risk.

Other factors that challenge stock marketing in Ethiopia are:

- Low domestic savings: As indicated in Graph 12 (Appendix), though progressive, the amount of real per capita GDP is low, which ranges between Birr 2,300 and Birr 8000. The low domestic savings rate is probably due to the low income used for consumption rather than for savings. The culture of domestic savings and deposits should be encouraged.

On the other hand, the reasons for the absence of stock exchange market in Ethiopia are:

- The absence of rules and regulations about the stock market, because of the lack of political commitment from the government; this is the major reason for the absence of stock exchange market.
- *Existence of Few Share Companies in the Country:* The number of share companies in Ethiopia is less than 1 per cent.
- *Lack of Public Awareness about Investment in Share:* Most of the Ethiopian public is not familiar with negotiable instruments. As the project of launching the stock exchange in Ethiopia is under study, many people do not know enough about the stock market.
- A majority of businesses in the country are family owned, in the form of private limited companies (PLCs), so that resources are not free to move or mobilise in the economy. The structure of companies that are family owned (private limited companies, PLCs) is also an obstacle to the creation of a stock market in Ethiopia. Ethiopia has a large number of businesses that are family owned, as indicated in Table 9. As of June 2015, the total number of share companies (corporations) and private limited companies (PLCs) throughout the country were mainly dominated by the family owned businesses. Generally, the main factors limiting the supply of equities include the unwillingness of small, family-owned businesses to reduce ownership, and the perception by many companies that the risks associated with additional disclosure are not adequately compensated by additional returns. Since banks seriously do not require public disclosure like the stock market does, many firms would prefer to remain unlisted and source their capital from banks. As a result, these firms cannot be of any use to the stock market. The government should encourage privately owned companies to go public.
- *Lack of Adequate Accounting and Auditing Systems:* Absence of well-articulated nationally or locally accepted accounting and auditing standards in the country is another reason. The existence of a reliable financial accounting system is an important factor in the development of stock exchanges. The authorities are conscientious of the necessity to address deficiencies in the accounting and auditing system. The most pressing issues that need to be addressed include setting appropriate accounting standards for different categories of companies operating in Ethiopia. One of the major requirements for any company wishing to list is that it will be required to provide a full disclosure of its financial and operating activities. Ethiopian companies should be encouraged to adopt international accounting stan-

dards and to agree to report along the lines of international best practices if they wish to be listed on the stock exchange.

- *Absence of Strong Financial Intermediaries:* Not only is the lack of financial intermediaries an obstacle, but also the lack of merchant banks, financial advisory services, and investment banks, which are vital to the successful functioning of the stock exchange markets. An investment bank is an institution that acts as an advisor to institutions which may wish to raise money from capital markets by way of shares or bonds. At the present time, there are no investment banks in Ethiopia, and therefore, normal merchant banking services such as underwriting of equities and bonds, asset management, and corporate advisory services do not exist. These need to be created to facilitate the upcoming Ethiopian Stock Exchange.

On the other hand, the survey result also indicated the importance of a stock exchange market for the Ethiopian economy. Respondents were asked whether the stock market is important for the overall economy of the country, Ethiopia, and almost all agreed on the importance.

As indicated in Table 10 (Appendix), having a stock market is crucial for the country for different reasons. In other words, the presence of the market will have an irreplaceable impact on the country's economy, by:

- Providing symmetric information for different users, to make informed decisions;
- Creating a fair competition among financial institutions, particularly the banking sector, thereby reducing costs of financing new businesses;
- Increasing the liquidity of different investments in financial assets, thereby avoiding the gap between short-term and long-term investments in the country. In line with this, the respondents were asked to identify the types of investments that most investors in Ethiopia prefer. Table 11 (Appendix) summarises the result and also the reasons why they do it.

  Stock marketing is challenged by the investors' preference towards long-term financial assets. The survey results showed that most investors in the country are short-term oriented, than long-term investors in financial assets such as stocks. As indicated in the Table 11, all respondents proved the fact that most investors in Ethiopia prefer short-term investments. The reasons why most investors prefer short-term investments include:

  - To avoid risk.
  - Lack of trust on the feasibility of long-term investment returns, and so on.

  However, the main reason for the preference is about the issue of liquidity of the investment. Of course, liquidity can be defined in many ways. For simplicity of understanding, liquidity could be defined as the conversion of an asset into cash within a short time at a reasonable price. Therefore, if the stock exchange market is flourishing in Ethiopia, it could be possible to curb the challenge of investors' preference of only short-term investments than long-term ones, as the market breaks the gap between short-term and long-term investments, which is manifested by the liquidity, and therefore the level of risk the investors bear.
- *Stabilising the Economy:* Establishment of capital exchange markets will help policy makers practice both the fiscal as well as the monetary policy, to avoid inflation and macroeconomic problems; and
- *Advancing Economic Growth:* Since stock exchange market creates or provides different investment alternatives for investors, it will help mobilise domestic savings, thereby increasing investment in real assets.

Prospects of Stock Marketing in Ethiopia

Though stock marketing is challenging for share companies in the existing situation, the future envisages prospects in establishing an active stock exchange market and stock marketing in Ethiopia for the following reasons:

- *Revision of Commercial Code:* Currently, the commercial code is under revision, which could help protect individual investors and the business environment in general, which is lacking in the old commercial code;
- Lesson taken from the Ethiopian commodity exchange;
- *Accounting and Auditing Standards:* Currently, the country is moving to introduce new accounting (international financial reporting) and auditing (international auditing) standards;

- *Expansion of Share Companies:* Share companies are increasing in number and size because of the expansion of foreign direct investment in Ethiopia; and
- *Lesson taken from the Ethiopian Commodity Exchange:* Nowadays, the government has shown interest in establishing a flat market, which could facilitate formal trading.

Stock Marketing Strategies for Share Companies in Ethiopia

Given the existing stock marketing challenges and future prospects of stock marketing in Ethiopia, share companies should implement the following stock marketing strategies to address or approach potential investors under two capital structures or financing scenarios.

Scenario I: Financing Much (50% Plus) from Equity Sources

Under this scenario, much of the total assets of the company will be financed from equity sources of capital, by issuing shares. Therefore, to sell the company's share to potential investors, the company should use different strategies, based on investors' preference. As indicated in Table 12 (Appendix), the best mechanism through which a new share company approaches:

- Domestic investors (financial institutions, institutional investors, public enterprises, and individual investors, and state and regional governments), is by physically approaching the potential equity investors and providing the prospects of the company, to initiate or encourage them to buy the company's share.
  - Similarly, the company should aggressively promote and lobby state and regional governments to invest in the company's share.
  - In addition to approaching physically, share companies should also aggressively promote itself using media and different local market promoters, to address individual investors (householders), who were difficult to approach before.
- On the other hand, to approach both foreigners and Ethiopian diasporas, share companies have to develop or create their own websites and email addresses, and should use different social media such as Facebook, Google Plus, Twitter, and the like, to approach potential investors.
  - Moreover, corporations should also participate in different business workshops and forums to promote and sell the share to the foreigners and diaspora.

Scenario II: Financing Much (50% Plus) from Debt Sources

Under this scenario, the capital will be mainly financed by the creditors, through borrowed money. This financing approach is advisable if and only if the first scenario is impossible to achieve. Hence, the first approach is more preferable to the second approach. However, if the first approach is impractical to realise the project, share companies should go for the second scenario. Now, the strategy is about how to convince the creditors to finance much of the firm's total assets. Therefore, share companies should:

- Provide the feasibility study of the project to the creditors;
- Present the profile of the top-management and board of directors' composition; and
- Present the fact that the promoters of the project/business are well-known individuals and institutions, such as the chambers of commerce and sectoral associations.

References

Access Capital. Research highlights, Banking sector review, 2010, Addis Ababa.

Merikas, A., Merikas, A., & Vozikis, G. S. (2000). Economic factors and individual investor behaviour: The case of the Greek stock exchange. *Journal of Applied Business Research, 20*(4).

Anyanwu, J. C., & Erhijakpor, A. E. O. (2010). Do international remittances affect poverty in Africa? *African Development Review, 22*(1), 51-91

Tessema, A. (2003). Prospects and challenges for developing securities markets in Ethiopia: An analaytical review. *African Development Review 15*(1), 50-65.

Bakare, A. S. (2011). A theoretical analysis of capital formation and growth in Nigeria. *Far East Journal of Psychology and Business*, *3*(1).

Beck, T., Demirgüç-Kunt, A., & Levine, R. (2005). SMEs, growth and poverty: Cross-country evidence. *Journal of Economic Growth,* 197-227.

Beddies, C. (1999, August). Investment, capital accumulation and growth: Some evidence from Gambia: 1964-1998. IMF Working Paper 99/117.

Business Landscape. (2013). Invest in Ethiopia, The Emerging Workshop of Africa, USID, bkp, The African Group.

Chan, C., Forwood, D., Roper, H., & Sayers, C. (2009, March). Public infrastructure financing: An international perspective. Productivity Commission Staff Working Paper.

Chow, G. C. (1993). Capital formation and economic growth in China. *The Quarterly Journal of Economics*, *108*(3), 809-842.

Ciuriak, D. (2010). *Supply and demand side constraints as barriers for Ethiopian exports: Policy options*. BKP Development, Trade and Development Discussion Paper No. 02-2010. Retrieved from http://ssrn.com/abstract=1659655

Creswell, J. W., & Creswell, J. D. (2000). *Research design: Qualitative and quantitative approaches.* Thousand Oaks, CA: Sage Publications.

Demirgüç-Kunt, A., Maksimovic, V. (1998). Law, finance, and firm growth. *Journal of Finance, 53,* 2107-2137.

East Africa Securities Co. (2000). Towards promoting a capital market in Ethiopia.

Ethiopian Investment Commission. (2015). An investment guide to Ethiopia.

Finance Map of World. (2013). Savings and economic growth. Retrieved June 28, 2013, from http://finance.Mapsofworld.com/savings/account/economic-growth.html

Fabozzi, F. J., & Peterson, P. P. (2003). *Financial management and analysis* (2nd ed., pp. 356-358). USA: John Wiley & Sons.

Ghirmay, S. G., & Cadet, M. (1998). Direct foreign investment's impact on private capital formation in sub-saharan Africa. *African Economic and Business Review, 1*(2).

Ghura, D. (1997, December). Private investment and endogenous growth: Evidence from Cameroon. IMF Working Paper 97/165, December.

Ghura, D., & Hadjimichael, M. T. (1996, September). *Growth in sub-saharan Africa.* Staff Papers, International Monetary Fund, 43.

Assefa, H., Bienen, D., & Ciuriak, D. (2012). *Ethiopia investment prospects: A sectoral scan.* Trade and Development Discussion Paper no. 02/2012, BKP Development Research & Consulting.

Tsafack, H. K. (2010). *The virtues of savings mobilization for economic development in Africa*. Africa Finance Forum.

IFAD. (2009). *Sending money home to Africa: Remittance markets, enabling environment and prospects*. International Fund for Agricultural Development. Retrieved from http://www.ifad.org/remittances/pub/money_africa.pdf

Fiestas, I., & Sinha, S. (2011). *Constraints to private investment in the poorest developing countries - A review of the literature.* NATHAN Association London Ltd.

IMF. (2013). *The federal democratic republic of Ethiopia, Staff Report for the 2013 Article IV Consultation.* IMF Country Report No. 13/308.

IMF World Economic Outlook October 2012, and Central Statistical Agency.

International Fund for Agricultural Development (IFAD): Sending money home to Africa: Remittance markets, enabling environment and prospects. Retrieved from http://www.ifad.org/remittances/pub/money_africa.pdf.

Khan, A. (2007). Foreign direct investment and economic growth: The role of domestic financial sector. PIDE Working Paper.

Lean, H. H., & Song, Y. (2009). The domestic savings and economic growth relationship in China. *Journal of Chinese Economic and Foreign Trade Studies, 2*(1), 5-17.

Liu, J. Q., & Guo, Z. F. (2002). Positive analysis of causal relationship between saving rate and economic growth in China's economy [J]. *China Soft Science*, *2*.

Loayza, N. (2002). Saving in developing countries: An overview. *The World Bank Economic Review, 14*(3), 393-414.

National Bank of Ethiopia. (2014/15). Annual Report.

Newland, K., & Patrick, E. (2004). *Beyond remittances: The role of diaspora in poverty reductions in their countries of origin* (p. 16). Washington D.C. USA: Migration Policy Institute.

Nkurunziza, J. D. (2010). The effect of credit on growth and convergence of firm size in Kenyan manufacturing. *The Journal of International Trade & Economic Development: An International and Comparative Review, 19,* 465-494.

OECD. (2009, March 30). Total ODA in 2008: Development aid at its highest level ever in 2008.

Retrieved from http://www.oecd.org/document/13/0,3343,en_2649_34487_42458595_1_1_1_1,00.html

Ojah, K., Gwatidzo, T., & Kaniki, S. (2010). Legal environment, finance channels and investment: The East African example. *Journal of Development Studies, 46,* 724-744.

Rajan, R. G., & Zingales, L. (1998). Financial dependence and growth. *American Economic Review, 88,* 559-586.

Ratha, D., Mohapatra, S., & Silwal, A. R. (2010, April 23). *Outlook for remittance flows 2010-11; Remittances data: Inflows.* Washington D.C.: The World Bank. Retrieved from http://siteresources.worldbank.org/INTPROSPECTS/Resources/3349341110315015165/RemittancesData_Inflows_Apr10(Public).xls; also, World Bank, *Remittances to Africa Resilient Despite Global Financial Crisis,* November 8, 2010.

Harbaugh, R. (2004). *China's high savings rates*. Conference on "The Rise of China Revisited: Perception and Reality", National Chengchi University, Chinese in Conference.

Sachs, J., McArthur, J. W., Schmidt-Traub, G., Kruk, M., Bahadur, C., Faye, M., & McCord, G. (2004). Ending Africa's poverty trap. *Brookings Papers on Economic Activity 1,* 117-240.

Sothan, S. (2014). Causal relationship between domestic saving and economic growth: Evidence from Cambodia. *International Journal of Economics and Finance*, *6*(9).

Lugauer, S., & Mark, N. C. (2011). The role of household saving in the economic rise of China.

Harege-Work, T., & Debessay, A. (1999). *Towards the development of capital market in Ethiopia, Addis Ababa.*

Tang, C. F., & Chau, S. Y. (2009). The savings-growth nexus in Malaysia: Evidence from nonparametric analysis. *The IUP Journal of Financial Economics, 7*(3&4), 83-94. doi:http://dx.doi.org/10.1080/00036846.2011.587784

(2015). Ethiopia investment climate statement. U.S. Department of State.

UNDP Human Development Report. (2009). International financial flows: Remittances, official development assistance and foreign direct investment. Retrieved from http://hdrstats.undp.org/en/indicators/51.html

United Nations Development Program (UNDP). (2009). *Human development report 2009 – Overcoming barriers: Human mobility and development,* (p. 6). New York, NY, USA. Retrieved from http://hdr.undp.org/en/reports/global/hdr2009

(2014). World Investment Report, Investing in the SDGS: An Action Plan. United Nations, New York and Geneva.

Wolassa, L. K. (2011). Investment efficiency, savings and economic growth in Sub Saharan Africa. Retrieved September 5, 2011, from http://www.politicalarticles.net/blog/2011/09/05/investment-efficiency-savings-and-economic-growth-in-sub-saharan-africa/

World Bank. (2012). *Public-private partnerships reference guide* (Version 1). Washington DC: World Bank Group.

World Development Indicators (WDI), The World Bank, Washington, DC. Retrieved from http://data.worldbank.org/data-catalog/world-development-indicators?cid=GPD_WDI; or http://www.google.com/publicdata?ds=wb di&met=ny_gdp_mktp_cd&idim=country:IND&dl=en&hl=en&q=india's+gdp

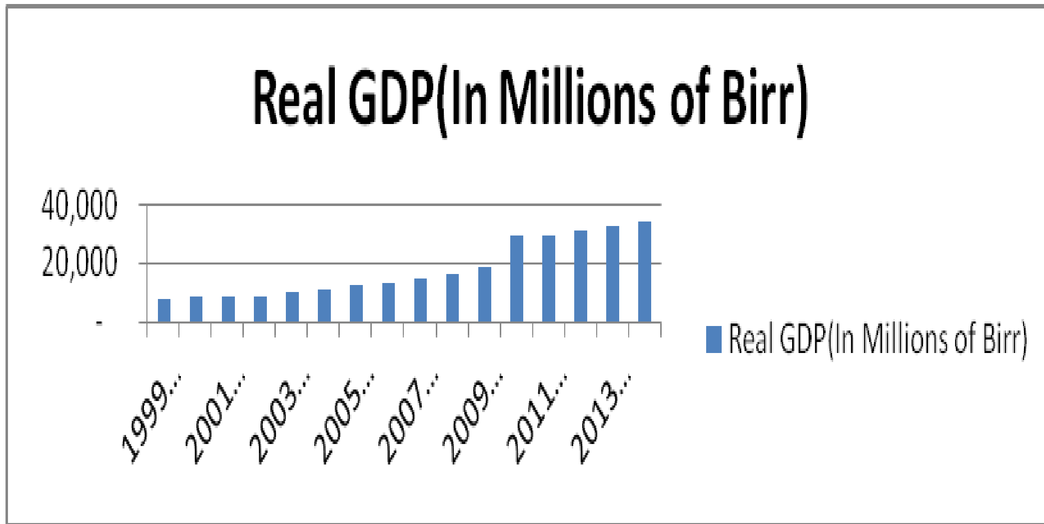
Xie, A. (2006). Tales from the middle kingdom. *Morgan Stanley Investment Management Journal.* Retrieved from http://www.morganstanley.com/views/gef/archive/2006/20060222-Wed.html>; http://www.newworldencyclopedia.org/entry/Overseas_Chinese

National Bank of Ethiopia. Retrieved from http://www.nbe.gov.et/

www.afdb.org/.../afdb/.../Working_Paper_188_-_Remittances_and_their_Macroecon.

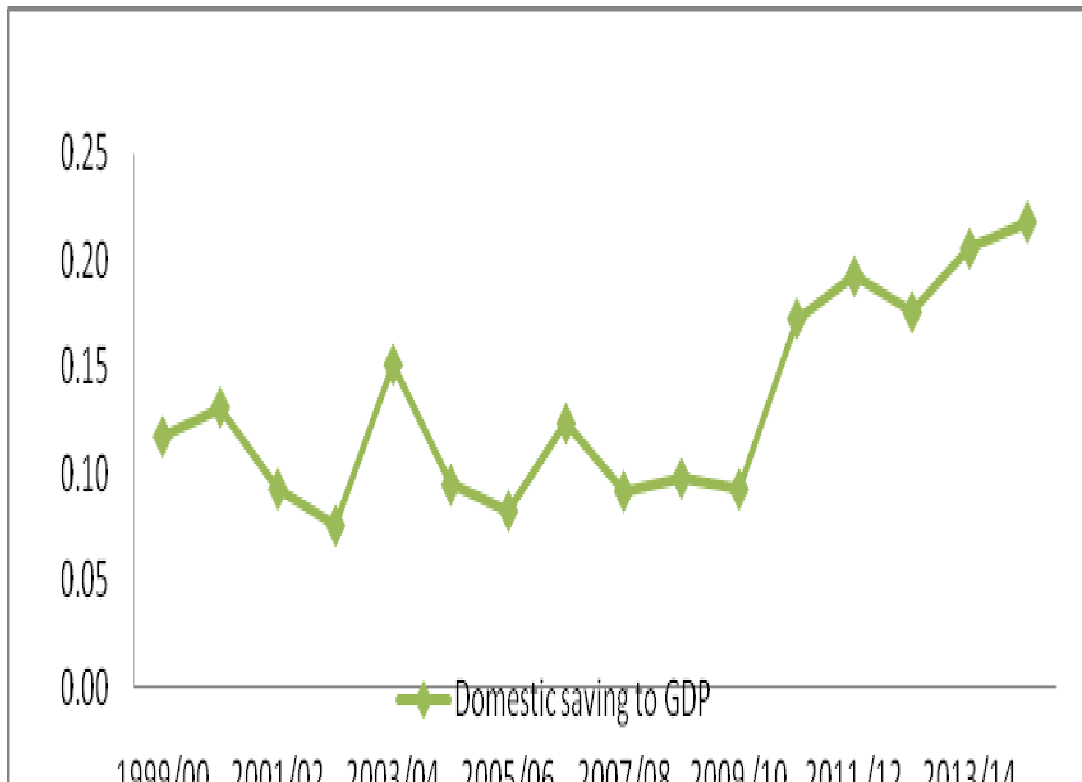
www.heritage.org/index/pdf/2015/book/Highlights.pdf

Appendix



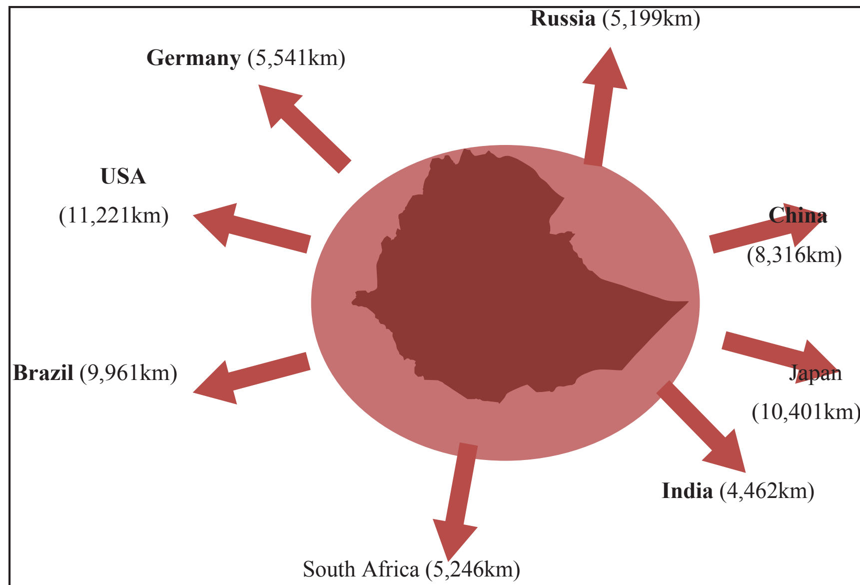
Source: NBE and researcher's own computation.

Graph 1: Real GDP of Ethiopia



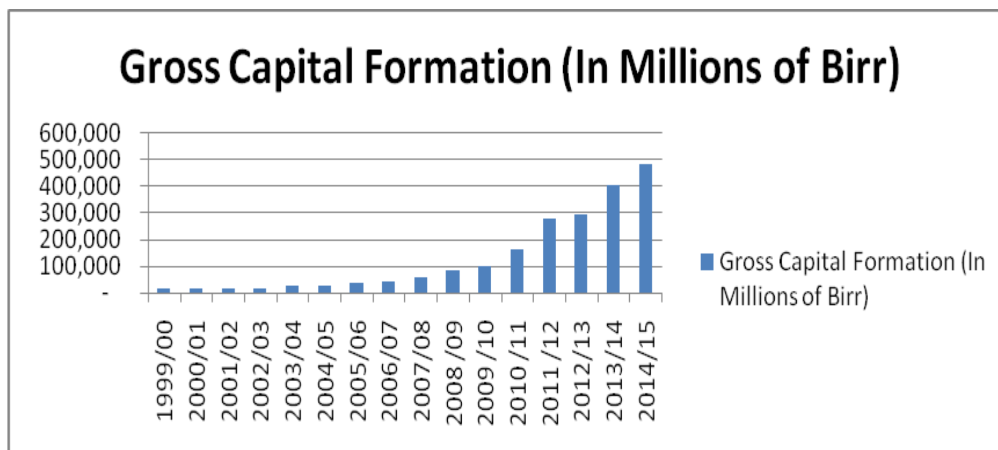
Source: NBE and researcher's own computation.

Graph 2: Gross Domestic Savings to GDP



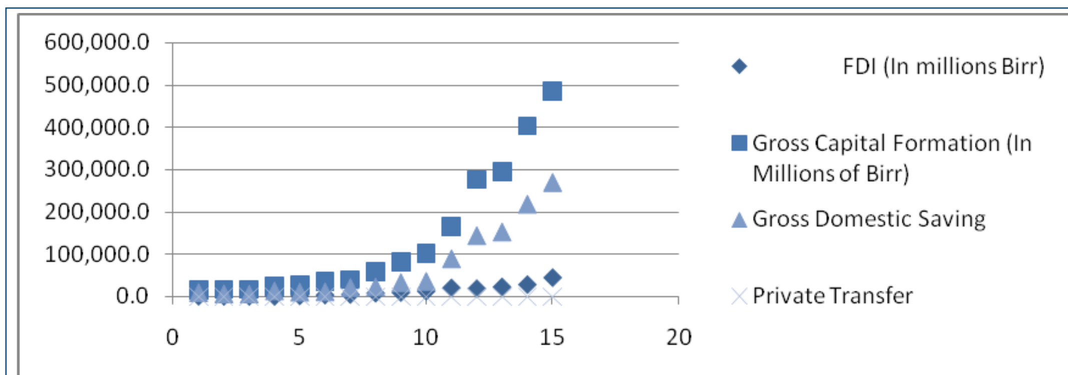
Source: Business Landscape, 2013.

Fig. 1: Ethiopia's Geographic Location



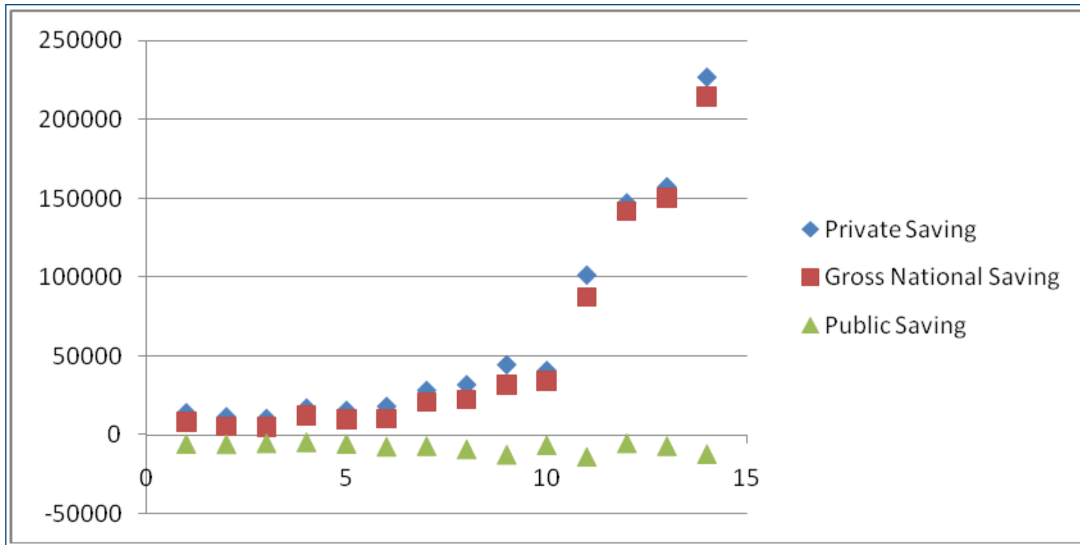
Source: NBE, MoFED, and Researcher's own computation.

Graph 3: Gross Fixed Capital Formation



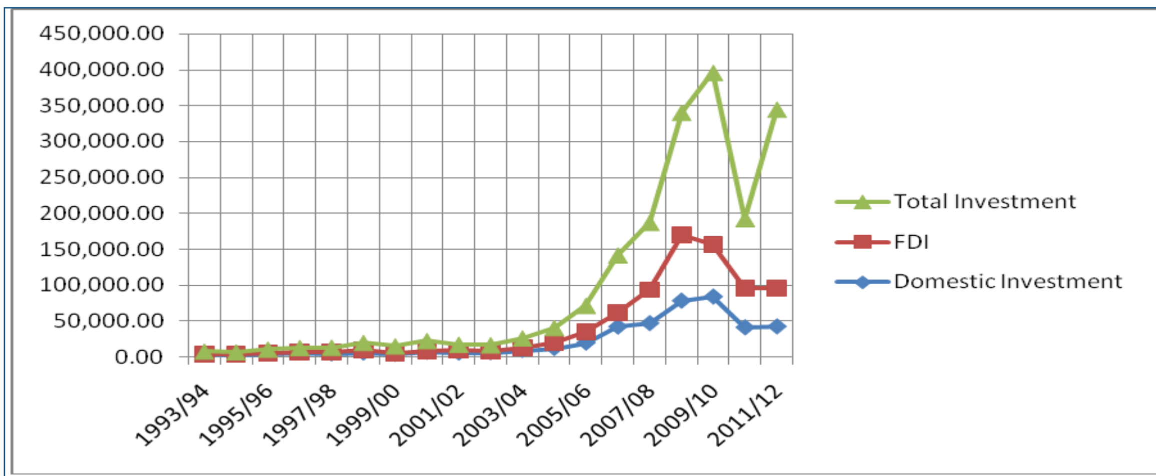
Source: NBE, MoFED, and Researcher's own computation.

Graph 4: Relationship among GFCF, FDI, Private Transfer, and GDS



Source: NBE, MoFED, and Researcher's own computation.

Graph 5: Gross National Savings



Source: NBE, Investment Agency, MoFED, and Researcher's own computation.

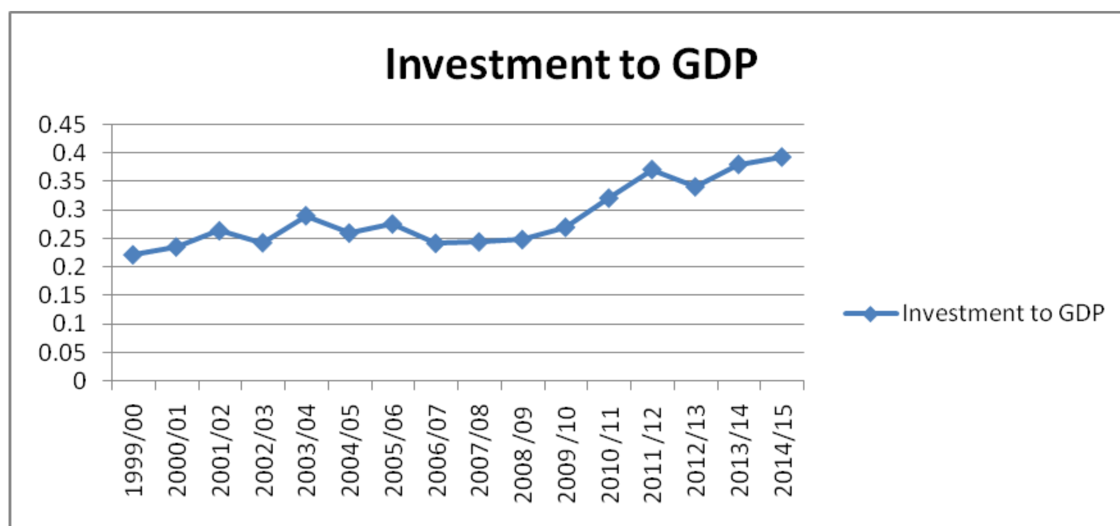
Graph 6: Total Capital Invested in Ethiopia (in Millions)

Table 1: Number and Investment Capital of Total Approved Projects (in Million Birr)

Fiscal Year	*Domestic Projects*		*Foreign Projects*		*Total Projects*	
	No. of Projects	*Investment Capital*	*No. of Projects*	*Investment Capital*	*No. of Projects*	*Investment Capital*
1993	542	3,750.00	3	233	545	3,983.00
1994	521	2,926.00	4	438	526	3,421.00
1995	684	4,794.00	7	505	693	5,338.00
1996	897	6,050.00	10	434	908	6,490.00
1997	752	4,447.00	42	2,268	795	6,722.00
1998	816	5,819.00	81	4,106	898	9,939.00

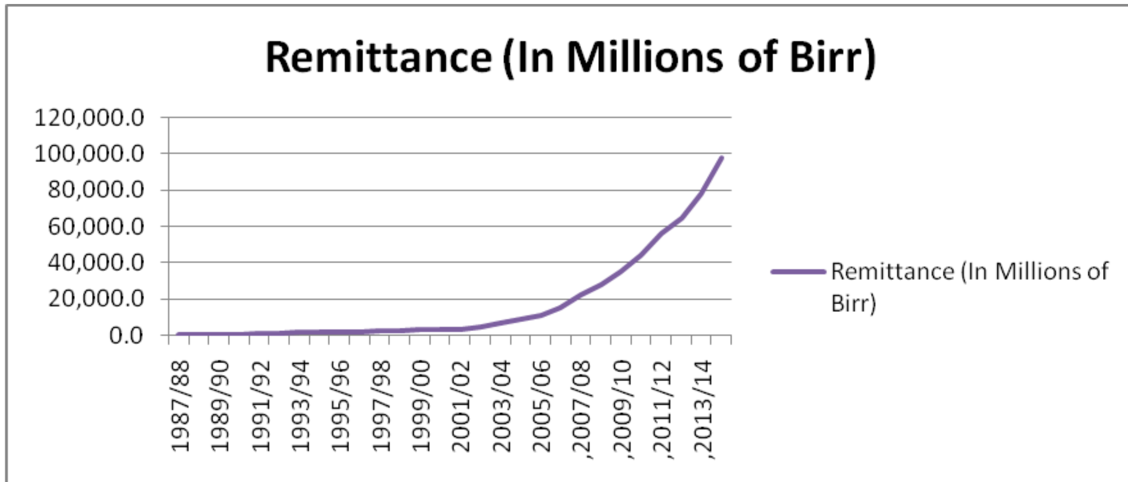
Fiscal Year	Domestic Projects		Foreign Projects		Total Projects	
	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital
1999	674	3,765.00	30	1,380	713	10,060.00
2000	561	6,740.00	54	1,627	624	14,127.00
2001	635	5,675.70	45	2,923	687	8,856.00
2002	756	6,117.30	35	1,474	801	9,190.20
2003	1,127	9,362.90	84	3,369	1,217	13,437.90
2004	1,862	12,177.70	347	7,205	2,225	21,220.00
2005	2,240	19,571.70	622	15,405	2,872	36,463.30
2006	5,100	41,841.10	753	19,980	5,859	80,036.30
2007	5,322	46,630.10	1,150	46,949	6,472	93,579.00
2008	7,307	77,868.20	1,651	92,249	8,961	170,378.50
2009	7,184	83,630.20	1,613	73,111	8,807	239,524.80
2010	5,080	40,852.20	1,413	55,169	6,496	96,415.40
2011	5,360	42,093.00	952	53,357	6,322	249,469.00

Source: Annual Report by the National Bank of Ethiopia, Investment Agency, and MoFED.



Source: NBE, Investment Agency, MoFED, and Researcher's own computation.

Graph 7: Investment to GDP Ratio



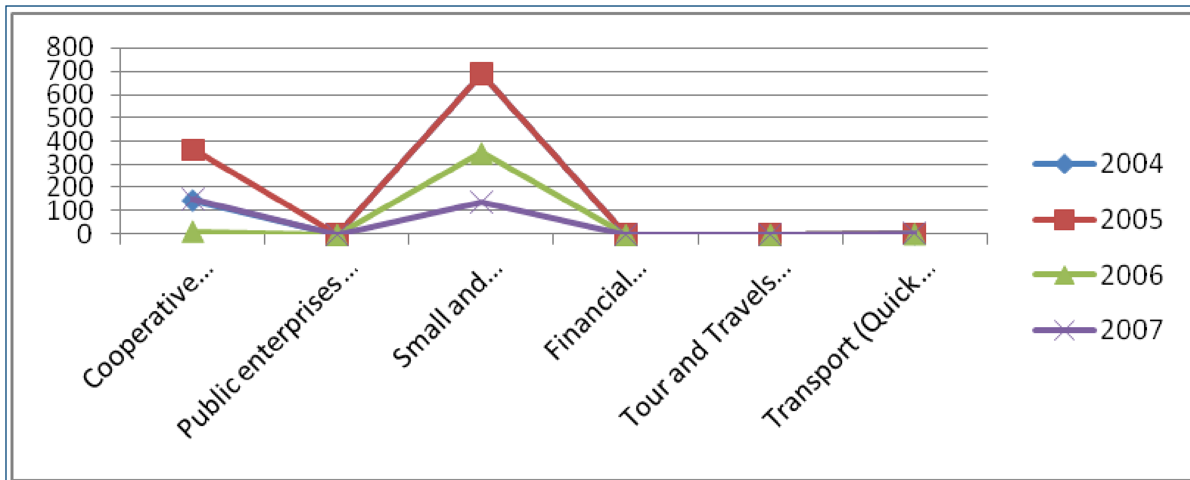
Source: NBE, MoFED, and Researcher's own computation.

Graph 8: Remittance from Ethiopian Diaspora

Table 2: Sample Companies' Average Liquidity or Capital Adequacy Ratio

Institutions & Measurement Tools	*2004*	*2005*	*2006*	*2007*
Cooperative associations (Quick ratio)	147	365.2	14.7	150.1
Public enterprises (Quick ratio)	1.03	0.89	0.72	0.55
Small and medium enterprises (Current ratio)	690	690	**351**	**139**
Financial institutions (Capital adequacy ratio)	0.121	0.128	0.140	0.137
Tour and travels (Quick ratio)	2.68	1.87	1.5	1.56
Transport (Quick ratio)	4.01	4.05	4.07	4.53

Source: Annual report of the firms, 2004-2007 E.C.



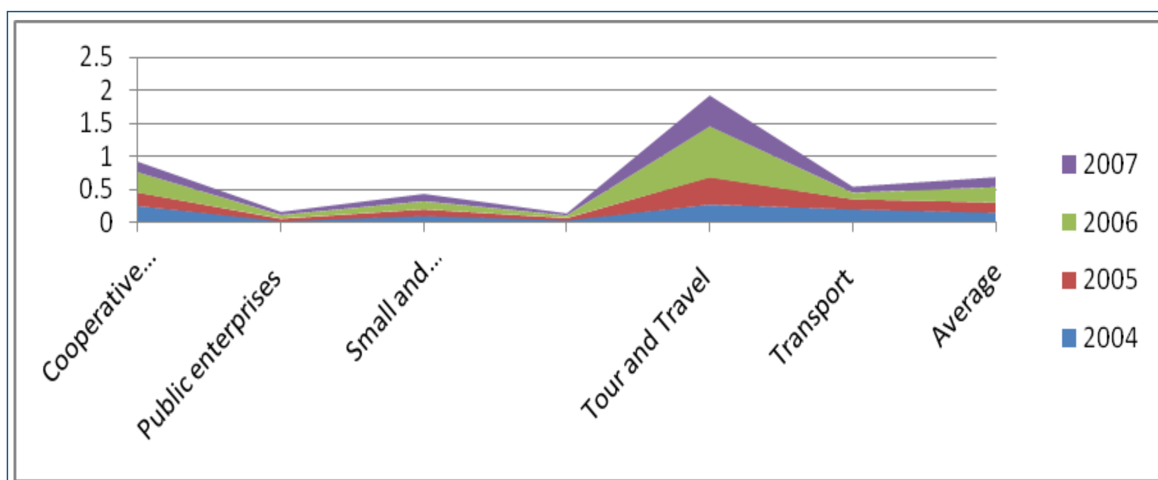
Source: Annual Report of AAEC, 2004-2007 E.C, and Researcher's own computation.

Graph 9: Sample Companies' Average Liquidity/Capital Adequacy Ratio

Table 3: Sample Companies' Average Return on Asset Ratio

Institutions	*2004*	*2005*	*2006*	*2007*
Cooperative associations	0.25	0.20	0.31	0.16
Public enterprises	0.02	0.039	0.052	0.046
Small and medium enterprises	0.10	0.10	0.12	0.11
Financial institutions	0.034	0.035	0.034	0.030
Tour and travel	0.27	0.41	0.78	0.47
Transport	0.20	0.15	0.10	0.09
Average	0.15	0.16	0.23	0.15

Source: Annual report of the firms and Researcher's own computation.



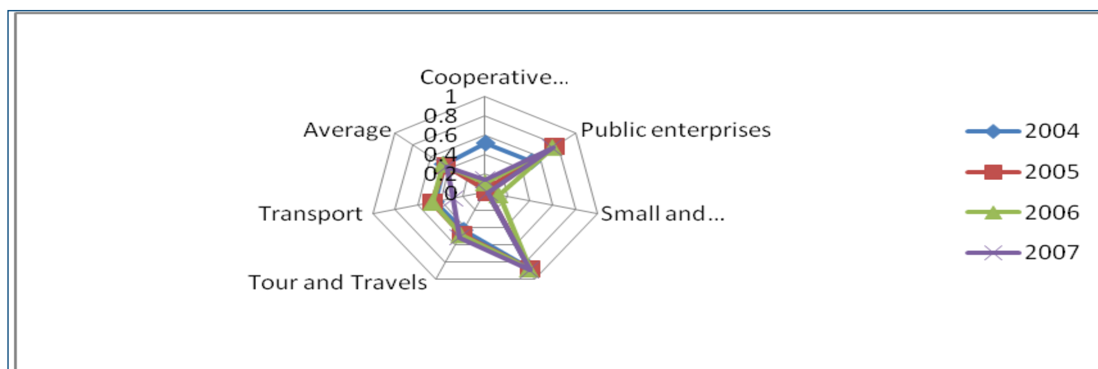
Source: Annual Report of AAEC, 2004-2007 E.C, and Researcher's own computation.

Graph 10: Sample Companies' Average Return on Asset Ratio

Table 4: Sample Companies' Debt to Asset Ratio

Institutions	*Debt to Asset Ratio (Average)*			
	2004	*2005*	*2006*	*2007*
Cooperative associations	0.51	0.03	0.10	0.13
Public enterprises	0.51	0.77	0.75	0.75
Small and medium enterprises	0.02	0.02	0.12	0.02
Financial institutions	0.867	0.887	0.883	0.898
Tour and travels	0.44	0.48	0.49	0.52
Transport	0.45	0.48	0.47	0.29
Average	0.47	0.44	0.47	0.43

Source: Annual report of the firms, 2004-2007 E.C., and Researcher's own computation.



Source: Annual Report of AAEC, 2004-2007 E.C, and Researcher's own computation.

Graph 11: Sample Companies' Average Debt to Asset Ratio

Table 5: Model Summary

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*				
1.	1.000[a]	.999	.999	4.8382940E3				

Source: SPSS Output

a. Predictors: (Constant), Rem, GDS, FDI

b Dependent Variable: GFCF

Table 6: Coefficients of Dependent and Independent Variables

Model		*Un-Standardised Coefficients*		*Standardised Coefficients*		
		B	*Std. Error*	*Beta*	*T*	*Sig.*
1.	(Constant)	−2378.754	2584.462		−.920	.377
	FDI	2.000	.590	.167	3.392	.006
	GDS	1.336	.070	.743	19.130	.000
	Rem	2177.477	313.404	.426	6.948	.000

Source: SPSS Output.

Table 7: Potential Equity Investors

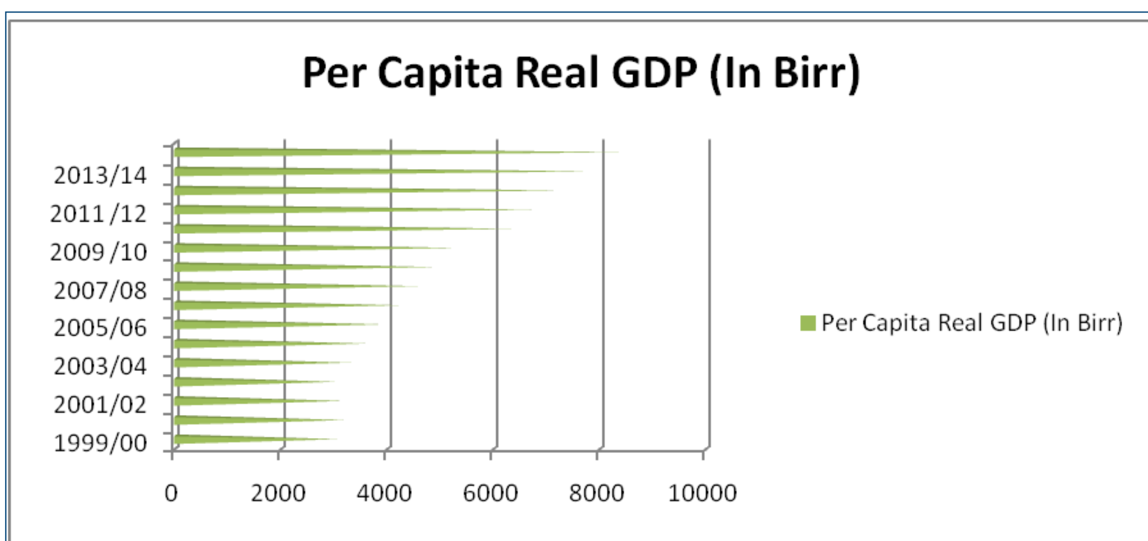
Potential Investors	*Rank*
Financial institutions (bank, insurance, saving and credit association, pension fund)	1st
Institutional investors (small and micro-enterprises, cooperative associations)	2nd
Ethiopian diasporas	3rd
Foreign investors	4th
Public enterprises	5th
Individual investors	6th
State and regional governments	7th

Source: Survey result.

Table 8: Factors that Challenge Stock Marketing in Ethiopia

Factors	*Rank*
Lack of information about the company issuing share	1st
Success history of share company in the country	2nd
Lack of public awareness about investment in companies' share	3rd
Absence of stock exchange market in the country	4th
Low domestic savings	5th
Lack of financial intermediaries, such as investment banks	6th

Source: Survey result.



Source: NBE, MoFED, and Researcher's own computation.

Graph 12: Real GDP Per Capita in Ethiopia (In Millions of Birr)

Table 9: Business Ownership Structure in Ethiopia

	PLC	*Corporation*	*Total*
Number	46,798	661	47,459
Capital (In Birr)	1,649,687,804,110	51,375,697,334	1,701,063,501,444
Percentage (Number)	0.99	0.01	100%
Percentage (Capital)	0.97	0.03	100%

Source: Ministry of Trade and Researcher's own computation.

Table 10: The Importance of Stock Exchange Market for the Ethiopian Economy

	Yes	*No*
Given the current economic status of the country, do you think that the stock exchange market is necessary for the Ethiopian economy?	100%	0%

Source: Survey result.

Table 11: Investors' Preference

Investment Preferences of Most Investors in Ethiopia	*Percentage*
Short-term investments such as treasury bill, savings account, and so on	100%
Long-term investments such as shares, bonds, and so on	0%

Source: Survey result.

Table 12: Approaches for Promoting and Selling of Shares to Different Potential Investors

Approaches of Promotion & Selling Using	*Domestic Investors*	*Foreign Investors*	*Ethiopian Diasporas*
Market promoters	3rd	4th	5th
Media (newspaper, television, radio, and so on)	2nd	3rd	3rd
Underwriter	4th	6th	4th
Internet	5th	1st	1st
Participating in different business forums and workshops	7th	2nd	2nd
Own stock sellers	6th	7th	7th
Physically approaching	1st	5th	6th

Source: Survey results.