ETHIOPIA CAPITAL MARKET DEVELOPMENT

Introduction

The development of Ethiopia's capital market is a national milestone built through collaborative engagement between the Ministry of Finance, the National Bank of Ethiopia (NBE), Ethiopian Investment Holdings (EIH), FSD Africa, FSD Ethiopia, and other partners. This field report captures the four-year journey through the voices of Assefa Sumoro, Senior Advisor, Equity and Debt Market Development, Ethiopia Capital Markets Authority; and Weynshet Zeberga, Director, Monetary and Financial Analysis Directorate at the National Bank of Ethiopia; both of whom constituted the initial technical team that laid the groundwork for the capital market. It also features the Ethiopia Securities Exchange team: Tilahun Kassahun, Chief Executive Officer; Michael Habte, Chief Operations Officer, and Yodit Kassa, Chief Business Development Officer.

Historical Background

Ethiopia's financial sector has historically been significantly underdeveloped, marked by among other features, the absence of a formal capital market. The lack of a securities exchange lead to limited savings mobilisation and an economy largely driven by public investment in infrastructure and public enterprises. A 2020 International Monetary Fund (IMF) report[1] indicates that external borrowing for large-scale infrastructure funding significantly increased the country's public debt burden from 39.6% of GDP in 2011 to about 60% in 2018. Meanwhile, private sector credit represented about 16% of GDP, substantially below regional standards, while at 10.9% of GDP, domestic savings mobilisation was also significantly lower than the Sub-Saharan Africa average of about 20%, according to a 2024 World Bank report[2].

This government-dominated financial model in which most banks were government owned, and private banks faced strict regulations further hindering the development of a dynamic and resilient financial sector. This model yielded a rapid economic growth of about 10.4% annually between 2004 and 2017 (World Bank, 2024) but did not deliver structural transformation or bolster private sector participation. Financial markets remained shallow, savings were inadequately mobilised, and private enterprises struggled with limited access to long-term capital.

Like most African countries, Ethiopia is under pressure to create sustainable jobs and promote inclusive economic opportunities for its rapidly expanding population of around 135.5 million (Worldometer reports)[3]. However, the limited access to long-term capital continues to constrain economic diversification and the growth of private enterprises, underscoring the urgent need for a robust and inclusive capital market ecosystem.

Spurred by economic pressures, the Ethiopia government through the Ministry of Finance, drafted its first Homegrown Economic Reform Agenda in 2019, aimed at stimulating private sector development - expanding financial inclusion and diversifying capital sources. *"We needed a mechanism for the government and the private sector to raise long-term capital outside the banking system,"* explains Weynshet.

Ethiopia's capital markets provide a transparent and regulated avenue for both domestic and foreign investment. It aligns with the national vision which includes addressing macroeconomic challenges such as high inflation, financial constraints, and dependency on central bank financing. *"Liberalising the economy requires very efficient money movement. Capital markets provide a good way to lubricate the economy by making it more efficient to connect investors and those who need capital,"* explained Habte.

Institutional and Regulatory Framework Development

The establishment of Ethiopia's capital markets involved strategic partnerships and collaborative engagements between the Ethiopia Government, the National Bank of Ethiopia (NBE), FSD Africa, FSD Ethiopia, the World Bank and other partners. Its development journey started in 2020 at the National Bank of Ethiopia with a technical team including Weynshet and Assefa. The team was tasked to lay the groundwork for a functioning capital market, complete with a regulatory framework, supportive institutions and market infrastructure. *"We started from nothing… a blank sheet,"* recalled Assefa.

By July 2021, the team had drafted and facilitated the enactment of the Capital Market Proclamation, the foundational legal instrument that established the Ethiopia Capital Markets Authority (ECMA) and the Ethiopian Securities Exchange (ESX). To build investor confidence, ECMA drafted key directives to govern market players, investment schemes, and trading protocols. These included the Capital Market Proclamation and other key subsidiary legislation like licensing directives for market service providers, regulations for self-regulatory organisations, and collective investment schemes.

The efforts culminated in a functioning capital market ecosystem that includes the Ethiopia Capital Markets Authority, the Ethiopian Securities Exchange, the Central Securities Depository (CSD), and the Capital Market Tribunal.

FSD Africa's Catalytic Role

From the onset, FSD Africa played a pivotal and multi-dimensional role in Ethiopia's capital market development, acting as a catalyst from conceptualisation to institutional establishment through technical and financial support. FSD Africa's support can be traced back to early conversations with NBE and throughout the development process. *"We didn't have sufficient capacity...but FSD Africa addressed this gap effectively,"* noted Assefa. This support included staff recruitment, reviewing and providing critical technical input on the drafts of key directives, and capacity development programmes that included "transformative" learning trips to Kenya, Ghana, Morocco and Malaysia, among others. *"We learnt in a few days what would have taken over six months to learn ... That was valuable,"* recalls Habte.

Not only did FSD Africa enable a broad capacity building for regulators, issuers, intermediaries and investors to deliver a functioning ecosystem, but it also sponsored the training of over 600 Ethiopian professionals for Chartered Institute for Securities and Investment certifications. The training equips professionals with globally recognised expertise in financial markets. Most importantly, the technical advisors engaged in the programme were Ethiopians, enabling contextualised solutions and avoiding foreign, ill-fitting models.

FSD Africa also financed and facilitated the acquisition and deployment of the Central Securities Depository system in NBE. *"The CSD is a big infrastructure; had FSD not supported it, the secondary market or the electronic trading would not be functioning effectively,"* states Weynshet, terming it a milestone.

The Lasting Impact of the Capital Markets

Officially launched in January 2025 with Wegagen Bank as its pioneer listing, the ESX demonstrates Ethiopia's successful financial market establishment. FSD Africa's involvement catalysed confidence across public and private investors by contributing a USD 1 million anchor investment and helping to raise USD 26 million (way above the targeted USD 11 million). *"We were oversubscribed…much has been achieved, but this is only the* *beginning,"* affirmed Tilahun. Yodit echoed this optimism, stating, *"The launch was a message: 'we are open for business'."*

The newly established Ethiopian capital markets is sustained by relevant skills development for thousands of citizens, licensing of brokers and agents, and enactment of legal frameworks. "Ethiopia is a diversified, inclusive capital market... but this is just the beginning," Assefa reflects with pride, adding that the focus now shifts to expanding product offerings, deepening market participation, and ensuring long-term sustainability.

In four years, Ethiopia has transitioned from an economy driven by public investment to one secured in a functioning capital market, establishing foundations for a system that not only holds national significance but could potentially serve as a blueprint for capital market development across Africa. As is envisioned in the Homegrown Economic Reform Agenda, the capital markets is expected to enhance Ethiopia's global financial credibility by transforming mobilisation of domestic and foreign capital. The ESX is expected to provide transparent, regulated long-term funding through equity and debt instruments.

---

1 International Monetary Fund (IMF). (2020). *The Federal Democratic Republic of Ethiopia: 2019 Article IV Consultation and Requests for Three-Year Arrangements under the Extended Credit Facility and the Extended Fund Facility—Press Release; Staff Report; and Statement by the Executive Director for The Federal Democratic Republic of Ethiopia* (IMF Country Report No. 20/29). Washington, DC: IMF.

2 World Bank. (2024, May 31). *Second Ethiopia Growth and Competitiveness Programmatic Development Policy Financing (P169079).* Washington, DC: World Bank. https://documents1.worldbank.org/curated/en/099060524113537767/pdf/BOSIB1f0e325ec0a119aab1feb64571bd0c.pdf

3 Worldometer. (2025, July 7). *Ethiopia Population (LIVE)* https://www.worldometers.info/world-population/ethiopia-population/