

# INVESTORS' GUIDE





# CONTENTS

## 04

### Capital Market Ecosystem

---

## 05

### Ethiopian Securities Exchange (ESX)

Products (investment vehicles)  
available on the ESX

---

## 08

### Investors

Who can invest?

Documents required:

Why should I invest in listed securities?

Tips for Investing

How to Invest in Securities

Investor Protection

## 13

### Settlement and Safekeeping

---

## 15

### General Guidance on Investing

---

## 16

### Investor Education



A modern office interior with a curved ceiling, glass partitions, and multiple monitors. The space is well-lit with recessed lighting and has a clean, professional appearance. A flag is visible in the background.

# Disclaimer

The material is meant for educational purposes and is not an investment or legal advice to invest in equity, debt and other financial instruments. Investors are advised to seek professional and specific advice from licensed capital market service providers or legal consultants in their consideration of investing in financial instruments.



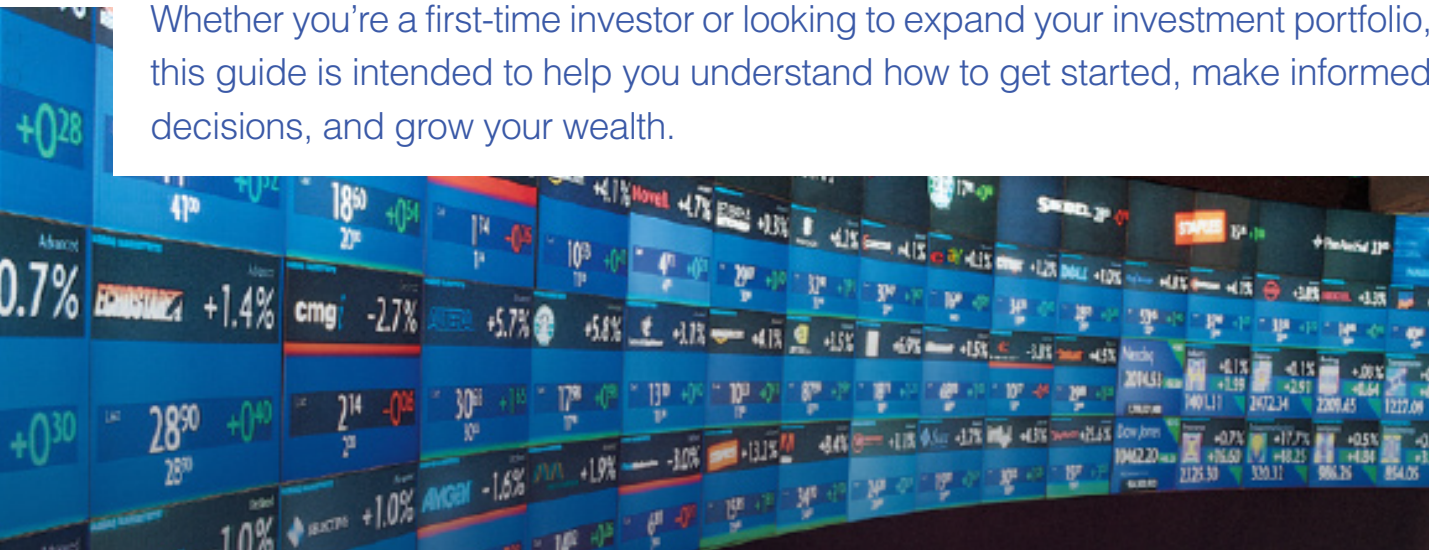






# Welcome to the Ethiopian Securities Exchange S.C.

Your gateway to investing in Ethiopia's emerging and dynamic capital market. Whether you're a first-time investor or looking to expand your investment portfolio, this guide is intended to help you understand how to get started, make informed decisions, and grow your wealth.



## The Capital Market Ecosystem

The capital market ecosystem is a network of participants and institutions that facilitate the flow of both short-term and long-term capital between investors and entities seeking funding.

It includes key players such as issuers (companies and government raising capital), securities exchanges, regulatory bodies, intermediaries (investment banks, brokers, dealers and others), and investors (both institutional and retail). This ecosystem enables the exchange of financial instruments, like shares and bonds, fostering economic growth by providing businesses with access to capital needed for operations, innovation and expansion.



For investors, the ecosystem offers diverse opportunities for wealth creation and portfolio diversification.



# Ethiopian Securities Exchange

ESX is a regulated marketplace for trading financial instruments, such as shares, bonds, sukuks and other securities. It serves as a platform where investors can engage in the trading of these financial assets, which are typically issued by publicly listed companies or governments.

The Ethiopian Securities Exchange (ESX) performs the following key functions:

- ✓ Provide a transparent, regulated and technology-driven marketplace for buying and selling securities.
- ✓ Facilitate capital raising for companies and the government.
- ✓ Offer investment opportunities to local and international investors.
- ✓ As a self-regulatory organization (SRO), it regulates, supervises, and monitors its members to maintain market integrity and protect investors.





# Products (investment vehicles) available on the ESX

ESX offers a diverse array of products and services, serving as a listing platform for equity, fixed income, and other investment instruments across its three markets: the **equity market**, the **fixed income market**, and the **alternative market**.



## Equity Market

Is a market for securities that provide you with ownership interest (rights) in the issuing company. Investing in equity securities (shares) offers periodic dividend income and potential capital gains as the company grows, resulting in an increase in share price. However, it also carries the risk of loss if the company's performance declines, leading to a decrease in share price. At the ESX, these securities are listed on two board:

- ✓ **Shares listed on the main board:** allows investors to invest in the shares of well-established and mature companies.
- ✓ **Share listed on the growth board:** offers opportunities to invest in the shares of companies with significant growth potential.

With the growth of the Ethiopian capital market ecosystem, ESX will offer other equity investment instruments that provide similar ownership interest to the investor: such as sharia compliant equity securities, Real Estate Investment Trusts/Companies (REIT/Cs), Exchange Traded Funds (ETFs) etc.







## Fixed Income Market

Fixed income securities are types of investments where you lend money to a company, government or municipalities, and in return, they agree to pay you regular interest, and return the principal at maturity. Typical examples include government treasury bills and bonds, sukuks, municipal bonds and corporate bonds. These types of investments are called “fixed income” because the payments you receive (the interest) are generally fixed. Fixed income securities can be a stable way to grow your income, especially if you’re looking for steady and reliable income over time.



## Alternative Market

The ESX alternative market offers various alternative financing options geared towards small and medium enterprises (SMEs) such as a crowd-investment platform. Investments in this platform carry relatively high risk and potential for high returns, so individual investors are expected to conduct their own due diligence. It also offers a platform for receivable discounting and trading of unlisted securities through its over-the-counter (OTC) arrangement.

## Primary and Secondary Market

The **primary market** is where new securities are issued and sold for the first time, allowing companies or governments to raise capital. Investors purchase these securities directly from the issuer.

The **secondary market**, on the other hand, is where previously issued securities are bought and sold between investors. In this market, the issuer is not involved, and the trading of securities occurs on exchanges or over-the-counter.







# Investors

In the context of the capital market ecosystem, investors are individuals or institutions that buy financial assets, such as stocks, bonds, or other securities, with the aim of earning returns through capital appreciation, dividends, or interest. As an Investor, you can become a shareholder in local companies and benefit from their growth or earn interest by investing in debt instruments issued by corporations, the government or municipalities.

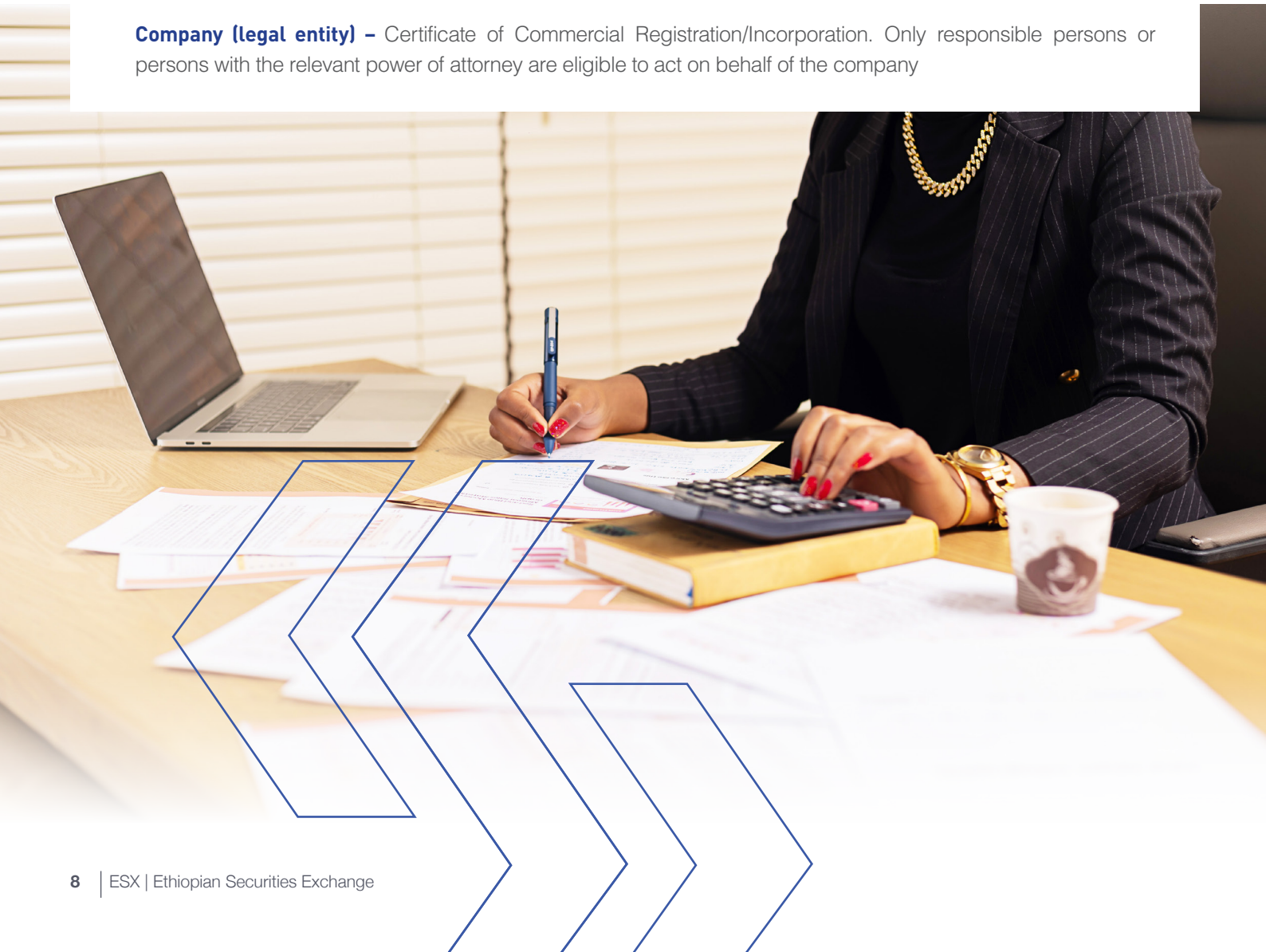
## Who can invest?

Any one from every corner of Ethiopia, both Ethiopians, foreigners of Ethiopian origin and foreign nationals can invest in securities listed on ESX subject to the rules set by the Ethiopian Capital Market Authority and the National Bank of Ethiopia

## Documents required:

**Individual Investors** – will need to provide a copy of your National Identification, and other necessary documentation.

**Company (legal entity)** – Certificate of Commercial Registration/Incorporation. Only responsible persons or persons with the relevant power of attorney are eligible to act on behalf of the company





# Why should i invest in listed securities?

Investing in products available on a securities exchange offers several benefits, including:



- ✓ **Return and Wealth Creation:** Investing in securities may offer better returns than other savings platforms. By accumulating periodic returns through interest or dividends, along with capital gains, you can build substantial wealth over time.
- ✓ **Diversification:** Using your funds, you can have access to a wide range of investment products, such as equities, bonds, and structured products of public companies, helping you to spread your risk across different asset classes. When collective investment schemes (CISs) become operational, investing through them will optimize your ability to diversify with limited funds.
- ✓ **Liquidity:** Listed securities typically offer high liquidity, meaning you can easily buy or sell your investments on the exchange. This flexibility allows you to quickly access your funds when needed, unlike other investment types that may have longer holding periods or penalties for early withdrawal.
- ✓ **Regulation and Safety:** To protect investors, issuers of securities traded on the exchange must meet stringent regulatory requirements established by the Ethiopian Capital Market Authority (ECMA) and ESX. These regulations provide oversight to prevent fraudulent activities and market manipulation.
- ✓ **Transparency:** ESX and ECMA have rigorous reporting, disclosure, and corporate governance requirements, ensuring that investors have access to up-to-date information about their investments.
- ✓ **Using Securities as Collateral:** If you need cash but prefer not to sell your securities, you can use them as collateral to secure a loan from various financial institutions in Ethiopia.

These and other benefits contribute to a more robust and accessible investment experience for both individual and institutional investors





# Tips for Investing

## A. Be aware of investment scams

An investment scam typically offers an investment opportunity that is too good to be true

### Some red flags to watch out for?

- ⚠ Unrealistically high return such as those with short period of time or with the promise of zero/no risk
- ⚠ You are pressured to make immediate decision, or you will lose out on the opportunity, or you are told that the opportunities are only valid for short term
- ⚠ Cash payment for individual or unrelated company
- ⚠ An opportunity to invest in a security before an information about it is publicly available
- ⚠ Unsolicited investment schemes either marketed online or through agents, especially when your only contact is through a single individual or the internet, and the company has no verifiable legal presence.
- ⚠ A scheme by a company that you have not heard of before and cannot verify
- ⚠ Reluctant to give you detailed information on the company or its directors and shareholders or to provide you with its financial as a proof for whatever claims they are making.

## B. Things to consider before making an investment decision

- 🔍 **Know your investment goal:** be clear about what you want to achieve from your investment and your tolerance for risk to determine what products to invest in.
- 🔍 **Understanding investment risk and return and their relationship:** investing involves both returns and risks. It is not possible to avoid risk completely when you invest, with the prospect of a higher potential return usually coming with higher risk. Therefore, it is important for you as an investor to understand how much risk you are willing to take so you can keep your risk exposure at a comfortable level.
- 🔍 **Seek guidance from licensed professionals (service providers)**
- 🔍 **Assess which investment products are suitable for your goal and risk appetite**
- 🔍 **Invest in a diverse range of assets:** Ensure that you don't put all your eggs in one basket! Diversify your investment portfolio by investing in a range of securities that vary in type, tenure and risk exposure.
- 🔍 **Conduct your due diligence:** understand the details of offering as provided in prospectus and ask yourself:
  - What is the background of the company?
  - Has it been profitable?
  - Is it in a lot of debt?
  - Who are its senior management team?
  - Who is regulating the company? etc...
- 🔍 **Ensure that any offerings of securities are registered with ECMA and listed on ESX**
- 🔍 **Verify the licensing / registration status of the listing company and service provider**



# How to Invest in Securities?

---

Securities are traded on the ESX exclusively through trading members.

ESX trading members are capital market service providers/ intermediaries (brokers, dealers, investment banks) who are licensed by ECMA and admitted as members by ESX to facilitate the buying and selling of securities on behalf of investors for a fee or commission.

Investors cannot purchase securities directly from ESX; instead, they must do so through these licensed intermediaries. In addition to executing trades, certain members can also offer investment advice and provide additional services.

Members may also facilitate direct electronic market access to investors through web based or mobile trading applications.

To purchase securities, an investor must open a depository account with a broker/dealer/ investment bank. After setting up the depository account, the investor can select the securities of interest.

Once you have selected the securities you wish to invest in, the securities broker, dealer, or investment bank will purchase the shares at the most advantageous price through the automated trading system at ESX.

Investors should give order instructions to the intermediaries as per the acceptable mode of communication in writing, verbally through a dedicated recorded telephone line(s) of the intermediaries, or online through internet-based trading systems for each trade.

Investors should take due care and be diligent while giving order instructions and indicate clearly whether the order is to buy or sale. The investor account will be credited with the securities purchased and debited with those sold.







# Investing in Securities: A Step-by-Step Guide.

- 1 Opening a Trading Account:** To invest on securities traded in ESX, you must open a trading account with a licensed intermediary. These intermediaries act as bridges between the investor and the Exchange, executing buy and sell orders on behalf of their clients.  
Steps to open a trading account:
  - i. Select a broker/dealer/investment bank:** Choose from a list of licensed intermediaries who are authorized to trade on the ESX.
  - ii. Complete account opening forms** and brokers/ dealers/investment bank performs customer due diligence (CDD) and KYC (Know Your Customer) requirements.
- 2 Fund your trading account:** Deposit money into your trading account or the bank account you'll use for investing.
- 3 Investment instructions:** Provide your broker/dealer /investment bank with instructions for buying or selling your chosen securities through mobile app, telephone or other means of communication.
- 4 Mobile trading:** ESX & Members may also provide direct electronic market access to investors through web based or mobile trading applications.



*KYC & CDD: Know Your Customer & Customer Due Diligence*



# Settlement and safekeeping

The transfer of securities and funds among transacting parties is facilitated by the interaction of the automated ESX trading system, the Central Securities Depository (CSD), and Real-Time Gross Settlement (RTGS) system.

The CSD, a unit under the National Bank of Ethiopia, manages the settlement of trades by transferring securities from the seller's account to the buyer's account, while the RTGS system facilitates the transfer of funds in the opposite direction.

This integrated process ensures the smooth and efficient exchange of securities and funds between market participants. Additionally, the CSD holds securities such as stocks, bonds, and other financial instruments in electronic form, eliminating the need for physical certificates and enhancing the security and integrity of these assets.





# Investor Protection

The Ethiopian Securities Exchange has taken, continues to take, and will continue to implement various measures to protect investors:

**Regulation and Oversight:** Together, ECMA and ESX work to protect investors by ensuring that market participants adhere to strict standards of conduct, provide accurate information, and engage in fair and transparent trading practices.

**Disclosure Requirements:** ESX requires companies and trading members to disclose key information like financial statements, material events, and risk factors that may impact investors' decisions.

**Investor Education:** ESX offers public lectures, road shows, webinars, and resources through its academy to help investors understand the ecosystem, securities, and the risks and benefits of trading, enabling informed decision-making

**Enforcing Trading Rules:** These rules govern trading behavior, order execution, reporting, and compliance, and their enforcement helps to prevent market manipulation, fraud, and other unethical practices.

**Market surveillance:** Through advanced monitoring systems and regulatory oversight, ESX can detect irregular trading activities, prevent market manipulation, and ensure that investors' interests are safeguarded

**Investor Compensation Schemes:** ESX maintains and operates a Client's Compensation Fund (CCF) which is administered by an independent Board of Directors. Each trading member will pay a non-refundable sum prescribed by the exchange and approved by ECMA as initial contribution to the fund. In line with that, the members will pay annual premium to the compensation fund. In the process of compensating investors, claims first will be verified if the losses incurred are prescribed under the compensation fund directive and capital market compensation fund regulation. Based on the verification, the board of directors of the CCF will make the payment in which the amount is determined by the Board of Directors.

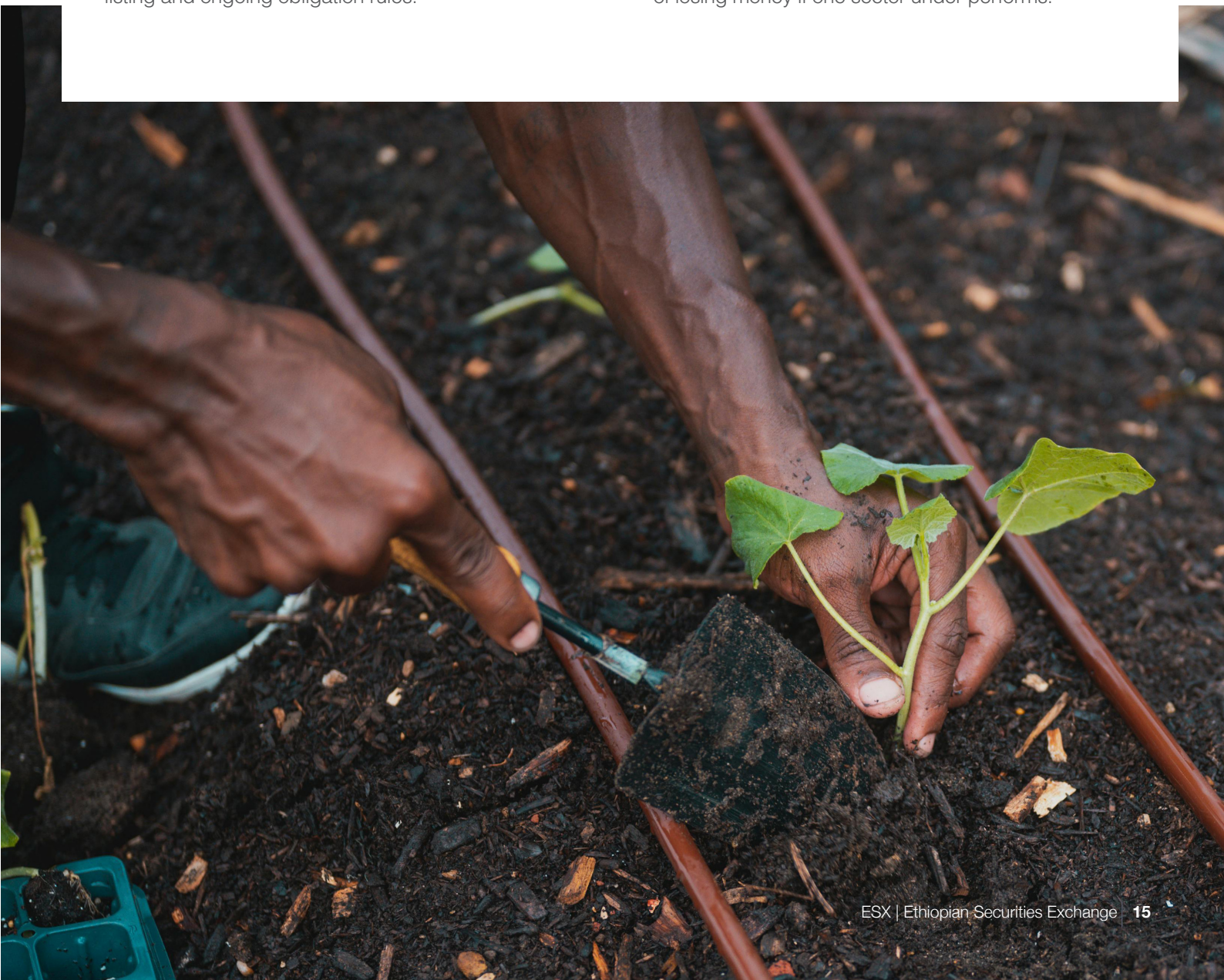
**Complaints management:** Trading members are required to establish and maintain internal compliance management procedures. If an investor alleges financial prejudice due to a trading member's failure to comply with instructions, exchange rules, or unethical conduct, the investor can file a complaint with the trading member's internal compliance unit. If the dispute is not resolved within 10 business days, it may be referred to ESX, which will investigate, mediate, and take appropriate enforcement actions, either independently or through recommendations for further sanctions. This process ensures fair treatment and accountability for investors in the market.





# General Guidance on Investing

- **Understand the value of saving and Investment:** prudent saving and investment are essential for building wealth over time.
- **Invest in regulated securities through regulated channels:** Issuers of securities and intermediaries must comply with regulatory requirements of the ECMA and ESX. Continuously update yourself: investing involves both returns and risks. It's essential to educate yourself about the securities you are investing in and to understand your goals and priorities
- **Keep track of company performance and stay updated on regular reports published by the company:** Being informed about a company's activities allows you to assess its performance and ensure it aligns with your investment strategy. ESX will publish regular financial and other reports of the company in accordance with its listing and ongoing obligation rules.
- **Understand Transaction Costs:** Each transaction on the stock exchange comes with associated costs, such as brokerage fees, taxes, and other levies. It's important to account for these fees when calculating potential returns. These costs vary across different types of securities, such as equities and fixed income instruments.
- **Think Long-Term:** Stock market investments should ideally be for the long-term. While short-term gains are possible, focusing on long-term growth allows you to ride out market fluctuations. A long-term approach can also minimize the risk of making impulsive decisions based on market volatility.
- **Diversify Your Investments:** Diversification is a risk management strategy that involves spreading your investments across different asset classes, industries, and geographic regions. This helps to minimize the risk of losing money if one sector under performs.



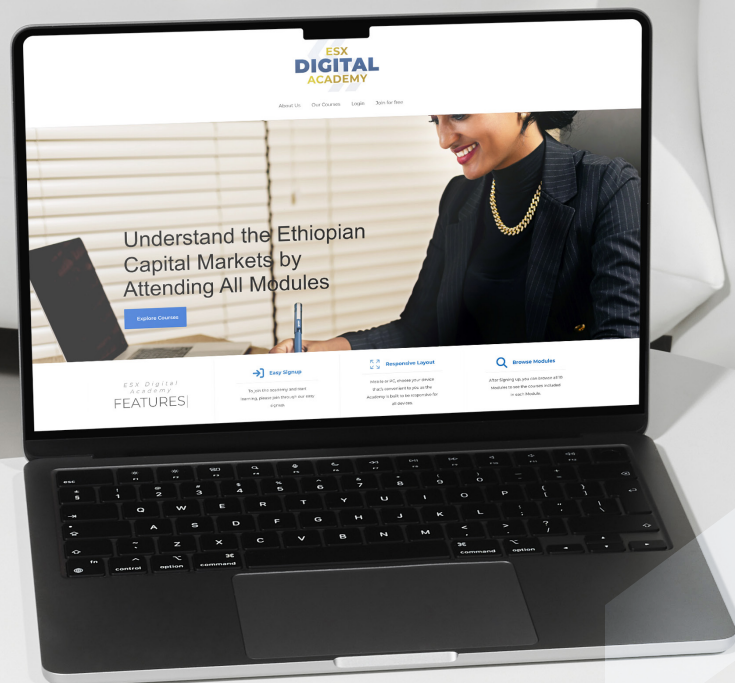


# Investor Education

ESX has designed an academy (ESX Academy) to enhance financial literacy and provide comprehensive knowledge about the capital market. It serves as a resource hub for investors and businesses seeking to understand the intricacies of how capital markets function, the roles of various participants, and the opportunities they present.



To learn more scan this QR code of ESX Digital Academy.









የኢትዮጵያ የሰነድ  
መ-ዓለ ንዋዮች ገበያ  
Ethiopian Securities  
Exchange

## Contact Us

---

**Tel:** +2519 5212 0031

**Email:** [info@esx.et](mailto:info@esx.et)

**[www.esxethiopia.com](http://www.esxethiopia.com)**