

Share Dealing Group vs. Stock Exchange

View Point



By Sophia Bekele

PREVENTING A TRAVESTY

On February 20, 2002, I was invited by one of the steering committee members to participate in a discussion regarding the formation of a Stock Exchange in Ethiopia and associated developments thus far. I had attended with an understanding that a proper Stock Exchange was being formed as it is operated in other countries.

I was, however, surprised that after hearing the discussions at the meeting, what was being formed was not a Stock Exchange but an 'Addis Abeba Share Dealing Group', that has been contrived under the auspices of the Addis Abeba Chamber of Commerce.

As soon as I saw what was going on, what came immediately to my mind was that of a 'Share Dealing Cartel' that very much operates like the "Diamond Dealing Cartel" of the Central Selling Organization (CSO) in London. The CSO is an organization that is sponsored by De Beers Conglomerate that controls the world trade in diamonds. It does this by fixing prices and controlling the supply and generally creating barriers to entry in the diamond trade.

My actual opinion is of important members of our business elite who, by showing parochial interests

and shortsighted corporate visions, are trying to rush through the establishment of an Addis Abeba Share Dealing Group under the sponsorship of the Addis Abeba Chamber of Commerce. The principal objective of this Share Dealing Group is to facilitate the trading of shares and other securities among the members of the Group and also providing training for those participating in the activities of the Group.

Strangely enough, the Addis Abeba Chamber of Commerce is revising the Share Dealing Group by acting as a sponsor and at the same time aiming to exercise oversight function over the Group. While it is commendable that a group of people has to come together to do something like this in the absence of a Stock Exchange, I feel that this is a dangerous move for so many reasons, which we might even have the time to discuss. What is worth doing is worth doing well. Accordingly, if we need a Stock Exchange in Ethiopia, we should have a proper Stock Exchange and not a Share Dealing Group. There is no rocket science in establishing a stock exchange.

Kenya, South Africa, Egypt, Nigeria, United States, and Ghana to mention but a few countries have Stock

Exchanges. The modalities of establishing of a stock exchange are also well known all over the world and such information is available in Ethiopia. This ad hoc arrangement that has been put together in the form of Addis Abeba Share Dealing Group should be rejected, because it is opportunistic. It is a travesty and does not in any way serve as an alternative to a proper and fully functional Stock Exchange, which is what we need here. It is opportunistic because this is not the right way to go about its establishment.

If the Government of Ethiopia has recognized the need for a stock exchange and is doing something about it, then all interested parties and stakeholders should in patience and make effective contributions to ensure that we have in Ethiopia a proper stock exchange the way it is operated in other countries. Government is the only agency that can put together the proper regulatory framework, operational guidelines and principles under which stock exchange or commodities exchange can exist.

For instance, the Chicago Commodities Exchange is owned and operated by the Chicago Board of Trade, which in turn is owned and

controlled by the Municipal Government of Chicago.

According to a recent newspaper article in *Fortune*, the draft proclamation on the establishment of a stock exchange market has been handed over to concerned governmental officials to examine it and make their recommendations. If this is the case, the decision of the Stock Exchange Steering Committee to go ahead with the establishment of a Share Dealing Group is premature.

Why the rush? Why shouldn't the steering committee harmonize its agenda with that of the government? Does the steering committee have a separate agenda, which it is pursuing?

If the answer to all this leave more questions than proper answers, then the entire business community plus the government should not give the steering committee support to implement their plan of establishing a Share Dealing Group.

Even the argument by Ato Tadeos Haregework, president of the committee, in the same article, that the Share Dealing will serve as a trail ground for the establishment of an Addis Abeba Stock Exchange Market is not acceptable.

Why should we not have a proper stock exchange

market from the beginning? I feel that the Stock Exchange Steering Committee is subverting its mandate, which is to see about the establishment of a proper stock exchange market, which is autonomous, and not under a Share Dealing Group under the umbrella of Addis Abeba Chamber of Commerce.

On the same issue of *Fortune* mentioned above, Ato Eyesus Work Zafu, vice president of Addis Abeba Chamber of Commerce, based on a presentation he made to the business community, also expressed a viewpoint. He said, "It is well known that where they exist, responsible stock markets, along with the auxiliary bodies including analysts and the listing requirements of not only members but also companies whose shares shall be offered in such markets, exact high standards of financial disciplines, accountability and transparency".

The question we ought to ask then is if a responsible stock market will exact high standards of financial discipline, accountability and transparency, what guarantees do we have that the Share Dealing Group will meet this standards.

Interestingly, Eyesus Work Zafu, in this same article,

mentioned the proliferation of "pseudo-share companies" whose very establishment and *modus operandi* circumvent, if not contradict the laws of the land."

Would it not be better for us to have a proper, open stock market where market forces will determine the prices of share and security instruments against the background that there are so many "pseudo-share companies" and as such this cannot be left to the machinations of a Share Dealing Group, which does not appear to be something that could be controlled by market forces.

The present arrangement whereby a few businessmen have decided to revive a defunct Share Dealing Group that ceased to operate more than 25 years ago can never be a substitute for a proper stock exchange. While their motives may be based on good intentions, the truth of the matter is that the Addis Abeba Chamber of Commerce cannot be both the sponsor and the regulator (oversight) of the Share Dealing Group according to the by-laws of the Group.

Additionally, we know the 'clannish' nature of most of our business groups here. Most share companies are

composed of groups of friends, relatives and generally people of the same socio-cultural and/or investment interest and sometimes who share a similar ethnic background.

These groups are well known in the private banking and insurance sectors; Nile/ Abyssinia, Awash Bank/ Awash Insurance, United Bank/United Insurance, Wegagen Bank/Africa Insurance, NIB Bank/NIB Insurance, Dashen Bank/ Nyala Insurance easily come to mind.

Based on this, there will be ample room for manipulation of the Share Dealing Group, because here, the Gamekeeper happens to be the Poacher. Needless to say therefore, that there would be accusations and allegations of insider trading and all sorts of financial malfeasance. This is hardly what we need and this will really undermine interest in the main stock exchange whenever it is formed.

Finally, I would like to recommend that if we must have a Share Dealing Group as a precursor to the full stock exchange market, then the Share Dealing Group should be established under the National Bank of Ethiopia to ensure its transparent and