



Factors Affecting Effectiveness of Budget Utilization in Case of Finance and Development Bureau of Dire Dawa Administration

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Abstract

This study explores the challenges and opportunities in implementing a capital market in Ethiopia using both primary and secondary data. A mixed research approach was employed, with data collected through interviews and questionnaires. Out of 249 distributed questionnaires, 240 (96%) were successfully returned and analyzed. Simple random sampling was used for survey respondents, while purposive sampling identified key informants for interviews. The results highlight that regulatory frameworks, infrastructure, political stability, and financial literacy significantly influence the successful implementation of a capital market. Among these, a strong regulatory environment and well-developed infrastructure emerged as the most critical enablers. Political stability and public financial awareness were also important for building investor confidence and participation. The study recommends that Ethiopia strengthen its regulatory institutions, invest in infrastructure, enhance financial education, and maintain political stability. These steps are essential to create a conducive environment for a functional and sustainable capital market that supports economic growth.

Keywords: capital market, financial literacy, Infrastructure, Political stability, regulatory framework

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1. Background of the Study

A budget is the most critical policy tool for achieving a country's economic and social priorities within the constraints of limited public resources. It plays a vital role in enabling the government to fulfill its economic, political, legal, and managerial responsibilities (Richard & Daniel, 2001). To perform its roles effectively, the government must collect resources from the economy in a sufficient and appropriate manner, and then allocate and use these resources responsibly, efficiently, and effectively. The budget is the key instrument through which these transactions are planned and executed (Allen & Tommasi, 2001).

As the single most important policy mechanism, the national budget ensures that a country's competing policy objectives are reconciled and implemented through concrete actions (Allen & Tommasi, 2001). It allows the government to direct scarce resources toward priority areas, ensuring that economic and social goals are achieved within the limits of available funding. The budget serves not only as a financial tool but also as a mechanism for policy implementation, balancing priorities and ensuring that public resources are allocated effectively.

In the context of higher education, budgeting and funding models relate to the procedures used by governments to allocate public funds to institutions. The choice of a budgeting mechanism depends on the objectives of the funding authority and the level of control the government wishes to exercise over the institutions. Sanyal (1995) notes that the government requires a mechanism to steer and control the higher education system, ensuring value for money and protection against poor management. This drive for efficiency has led to the development of various budgeting models in higher education.

At the university level, financial officers are tasked with monitoring the budget throughout the year, comparing actual expenditures with planned budgets across different departments. If discrepancies or imbalances occur, management must take corrective action, such as adjusting expenditure plans or improving financial controls over budget holders. An effective management information system is essential for keeping university leaders informed of the academic and financial performance of different units.

Public budgeting systems play several crucial roles, with the primary one being the regulation of public spending through financial oversight of inputs. They also serve as a means to

distribute limited resources in alignment with governmental priorities; ensuring objectives are met with efficiency and effectiveness. Moreover, budgets function as instruments of macroeconomic policy and tools for management. They promote administrative efficiency, cost-effectiveness, and transparency by holding public officials accountable for how they utilize funds and achieve desired outcomes

Budgeting is not only a tool for managing resources but also an instrument of accountability, allowing the legislative body, press, and public to hold administrators responsible for both financial management and performance outcomes. The ability of a budgeting system to perform these functions depends on the tools and techniques used, as well as political decisions regarding the government's priorities (Shah, 2007). Effective budget management involves comparing planned revenues and expenditures with actual results at various management levels, thereby evaluating economic efficiency. As a component of managerial control, the budgeting process is essential for strategic planning, performance evaluation, and ensuring coordination and communication within an organization. It also serves as a motivator for personnel, encouraging alignment with organizational goals (Todia Nicola, 2010).

2. Literature Review

The importance of budgeting in organizations, including governments, has been widely acknowledged in both theoretical and empirical literature. Various studies have examined the role of budgeting in ensuring financial control, enhancing communication, guiding planning, and fostering coordination within organizations. This empirical literature review synthesizes existing research that supports the functions of budgeting, its objectives, and its influence on performance.

2.1 Conceptual Framework

The research, titled "Factors Affecting the Effectiveness of Budget Utilization: A Case Study of the Finance and Economic Development Bureau of Dire Dawa Administration," aims to examine the key determinants that influence how effectively public budgets are utilized. Effective budget utilization is crucial for financial management, as it directly impacts service delivery, project completion, and overall development outcomes. The study proposes that several factors categorized into institutional, human resource, financial management, and external influences affect the efficiency and effectiveness of public budget utilization. The

conceptual framework of this research is structured around the dependent variable, Budget Utilization Effectiveness, which is influenced by the following independent factors:

Effective budget utilization, commonly measured by the Budget Utilization Rate (BUR), is influenced by a combination of institutional, human, financial, and external factors. Institutional factors such as bureaucratic procedures, organizational efficiency, and transparency play a critical role in enabling or hindering the timely execution of budgets (Andrews, 2010). In parallel, human resource capacity including the skills, training, and competency of staff responsible for financial management is essential for accurate budget planning, implementation, and reporting (Pretorius & Pretorius, 2008). Financial management practices, including strong internal controls, timely disbursement of funds, and the accuracy of financial reporting, are foundational to ensuring that allocated resources are used effectively and responsibly (PEFA, 2016). Additionally, external factors such as political stability and macroeconomic conditions shape the broader fiscal environment, either supporting or constraining budget performance (Campos & Pradhan, 1996). Collectively, these factors interact to determine the effectiveness of budget utilization, with improvements in any of these domains likely to lead to a higher BUR and, ultimately, more efficient public service delivery.

3. Materials and Methods

3.1. Study design

The study employed a mixed-methods research design, integrating both quantitative and qualitative approaches to thoroughly examine the factors influencing budget utilization effectiveness. This approach allowed for robust triangulation of findings by combining numerical data with in-depth qualitative insights. A descriptive-correlational design was adopted to identify and analyze the relationships between independent variables such as bureaucratic delays, institutional transparency, employee training, and financial controls and the dependent variable, budget utilization effectiveness (BUR). This design enabled the testing of hypotheses and facilitated the examination of how these variables related to BUR.

Additionally, the study incorporated explanatory elements to explore cause-and-effect relationships among the variables under investigation. The explanatory design helped assess the degree to which the independent variables contributed to variations in budget utilization, based on both observed data and existing literature (Marczyk et al., 2017). The combination of descriptive and inferential techniques provided a comprehensive understanding of the

dynamics influencing budget execution. This design supported the study's objective to generate evidence-based conclusions grounded in both statistical patterns and stakeholder perspectives.

3.2. Target Total Population

The total population for the study consisted of 100 individuals directly or indirectly involved in budget utilization activities within the Finance and Economic Development Bureau of the Dire Dawa Administration. This population included employees from various departments, managers, financial officers, auditors, and other relevant stakeholders who were engaged in financial planning, budgeting, and resource allocation. These individuals offered diverse insights into institutional and operational practices affecting budget utilization. The inclusion of various roles ensured that the study captured a wide range of experiences and perspectives relevant to public financial management.

3.3. Sample Size and Sampling Technique

To ensure representativeness, the study applied a stratified sampling technique. The population was divided into three distinct groups:

- 30 employees from the Finance and Economic Development Department
- 50 employees from related government institutions
- 20 financial experts

Given the relatively small population, the sample size was determined using Cochran's formula for finite populations. Initially, the sample size for an infinite population was calculated using the following formula:

$$n_0 = \frac{(1.96)^2 \cdot 0.5 \cdot (1 - 0.5)}{(0.05)^2} = 384.16$$

This was then adjusted using Cochran's correction formula for a finite population of 100:

$$n = \frac{384.16}{1 + \frac{384.16-1}{100}} \approx 80$$

Thus, the final sample size was **80 respondents**, proportionally distributed among the three groups as follows:

- 24 from the Finance & Economic Development Department

- 40 from related institutions
- 16 financial experts

This sampling method ensured that each subgroup was adequately represented, enhancing the reliability and generalizability of the findings.

3.4. Data Collection and Variable Measurement

Data were collected from both **primary and secondary sources** to ensure a comprehensive analysis.

- The **dependent variable, Budget Utilization Rate (BUR)**, was obtained from the Bureau's official financial reports covering the fiscal years **2019 to 2023**. BUR represented the proportion of the allocated budget that was actually utilized during each fiscal year.
- The **independent variables** were measured as follows:
 - ✚ **Bureaucratic Delays:** Assessed through semi-structured interviews with finance officials about approval processes and procedural bottlenecks.
 - ✚ **Institutional Transparency:** Measured via survey responses regarding access to information and accountability mechanisms.
 - ✚ **Employee Training:** Evaluated using HR records documenting the frequency, duration, and relevance of budget-related training programs.
 - ✚ **Financial Controls:** Assessed through a document review of audit reports, financial regulations, and internal control systems.
 - ✚ **External Factors** (e.g., political stability and economic conditions): Data were sourced from national economic indicators and international databases, such as those provided by the **Central Bank** and **International Monetary Fund (IMF)**.

Multiple data collection tools, including questionnaires, interviews, and document reviews, were used to improve data reliability and triangulation.

3.5. Estimation Technique

To estimate the relationship between the independent variables and BUR, the study employed **Ordinary Least Squares (OLS) regression**. This method was appropriate given the

continuous nature of the dependent variable. The analysis was designed to test the following hypotheses:

- **Null Hypothesis (H₀):** The independent variables had no statistically significant effect on budget utilization effectiveness ($\beta_1 = \beta_2 = \dots = \beta_n = 0$).
- **Alternative Hypothesis (H₁):** At least one independent variable had a statistically significant effect on budget utilization effectiveness ($\beta_i \neq 0$).

OLS regression enabled the estimation of coefficients for each independent variable and helped assess the direction, strength, and significance of their impact on BUR.

3.6. Method of Data Analysis and Presentation

The study used both quantitative and qualitative methods for data analysis.

- Quantitative data from surveys were analyzed using statistical software such as SPSS. Descriptive statistics (e.g., means, standard deviations) summarized demographic and variable-level data. Inferential statistics, specifically multiple regression analysis, were used to examine the relationship between the independent variables and BUR and to test the hypotheses.
- Qualitative data from semi-structured interviews were transcribed and analyzed using thematic analysis. Key themes, perceptions, and contextual insights were identified to supplement and deepen the interpretation of quantitative findings.

Findings were presented using tables, charts, and narrative explanations, enabling a coherent comparison of quantitative trends and qualitative interpretations. This comprehensive approach provided both statistical validation and contextual understanding of the factors influencing budget utilization.

4. Analysis and interpretation

4.1. Response Rate

In the research titled "Factors Affecting Effectiveness of Budget Utilization: In Case of Finance and Economic Development Bureau of Dire Dawa Administration," the study sought to gather data on various institutional, human resource, financial management, and external factors that influence the effectiveness of budget utilization. To achieve this, a structured questionnaire was distributed among employees of the Bureau.

A total of 80 questionnaires were distributed, targeting individuals involved in budget planning, allocation, and execution within the Finance and Economic Development Bureau. Out of these, 76 completed questionnaires were returned, representing a 95% response rate. This high response rate not only underscores the relevance of the research topic but also reflects the strong engagement of the respondents. The minimal number of missing questionnaires (4) ensures that the data collected is comprehensive and highly representative of the study population.

This robust response rate adds credibility to the findings and provides a strong foundation for analyzing the factors that affect the effectiveness of budget utilization within the Bureau. The response rate for the distributed questionnaires, the formula is as follows: Response Rate (%) = (Number of Returned Questionnaires/Total Distributed Questionnaires) × 100

4.2. Interpretation on Descriptive Statics

This table presents the respondents' perceptions regarding various factors influencing budget utilization effectiveness, including institutional factors, human resource capacity, financial management practices, external factors, project size, and budget size. Below is a descriptive statistics table summarizing the responses from 76 participants, highlighting the mean, standard deviation, and variance for each questionnaire item related to these factors.

Table 1: Respondents' Perceptions of Factors Affecting Budget Utilization Effectiveness

Variable	Mean	Standard Deviation	Variance
Bureaucratic Delays Impact	3.12	1.46	2.13
Institutional Transparency	3.04	1.43	2.04
Staff Competency	2.89	1.43	2.04
Training Availability	2.91	1.44	2.08
Financial Control Effectiveness	3.17	1.42	2.01
Timeliness of Disbursement	3.01	1.48	2.20
Financial Reporting Accuracy	3.05	1.37	1.89
Political Stability Impact	3.05	1.39	1.94
Economic Conditions Impact	2.74	1.34	1.80
Project Size	2.09	0.80	0.64
Budget Size Influence	3.11	1.38	1.91

Source: (survey, 2024)

The descriptive statistics table provides a comprehensive overview of the perceptions of 76 participants regarding various factors influencing budget utilization effectiveness in the Finance and Economic Development Bureau of Dire Dawa Administration. By analyzing means, standard deviations, and variances for each questionnaire item, we can identify key areas of concern and opportunities for improvement within the budgetary processes.

4.3. Diagnostic Test

To assess the validity and robustness of multiple regression model, the diagnostic tests are essential. Below are the Multicollinearity and Heteroscedasticity diagnostic test results presented in table format:

4.3.1. Multi collinearity Test (Variance Inflation Factor - VIF)

The Variance Inflation Factor (VIF) test was conducted to check for multicollinearity among the independent variables in the study. Multicollinearity refers to a situation in which two or more independent variables in a regression model are highly correlated, which can distort the results of the regression analysis by inflating the standard errors and affecting the stability of the coefficients.

The results of the VIF test, as presented in Table 2, show that the VIF values for all independent variables are well below the commonly accepted threshold of 10, with values ranging from 1.61 to 2.54. According to empirical guidelines, a VIF value below 10 indicates that there is no serious multicollinearity problem, and values below 5 are generally considered acceptable for most regression analyses.

Table 2. *Variance Inflation Factor - VIF*

Independent Variable	VIF Value
Bureaucratic Delays (BD)	2.35
Institutional Transparency (IT)	1.89
Employee Training (ET)	2.12
Staff Competency (SC)	1.92
Financial Controls (FC)	2.48
Timely Disbursement (TD)	2.09
Financial Reporting Accuracy (FRA)	1.75
Political Stability (PS)	1.61
Economic Conditions (EC)	2.21
Project Size (Control)	2.17
Budget Size (Control)	2.54

Source: (survey, 2024)

The results of the VIF test confirm that there is no Multicollinearity present in the model. This implies that the independent variables used in the regression analysis—such as institutional factors, human resource capacity, financial management practices, and external influences are sufficiently independent of each other. Therefore, the results of the regression analysis can be interpreted confidently without concerns of multicollinearity distorting the estimates of the relationships between these factors and

the dependent variable, budget utilization effectiveness. This finding aligns with previous empirical research, such as Gujarati & Porter (2009), which emphasizes that a low VIF suggests reliable regression results, ensuring that the regression coefficients are stable and that the model is well-specified.

4.3.2. Heteroscedasticity Test

The Breusch-Pagan test for Heteroscedasticity produced a test statistic of 7.89 and a p-value of 0.127, which is greater than the commonly accepted significance level of 0.05. As a result, we fail to reject the null hypothesis of Homoscedasticity, indicating that there is no evidence of Heteroscedasticity in the regression model. This means the error variance is constant across all levels of the independent variables, satisfying a key assumption of the regression model. The absence of Heteroscedasticity ensures that the regression coefficients and their standard errors are reliable, thereby enhancing the robustness and validity of the model's estimates.

Table 3: Breusch-Pagan Test Results

Test Statistic	Value	p-Value	Interpretation
Breusch-Pagan Test Statistic	7.89	0.127	No Heteroscedasticity

Source: (survey, 2024)

4.3.3. Autocorrelation Diagnostic

Autocorrelation occurs when the residuals (errors) in the regression model are not independent of each other, which can affect the validity of the regression results. The Durbin-Watson (DW) test was used to detect the presence of autocorrelation in the residuals.

The DW test statistic ranges between 0 and 4:

- DW \approx 2: No autocorrelation.
- DW < 2: Positive autocorrelation.
- DW > 2: Negative autocorrelation.

4.4. Hypotheses Testing

•H1: Institutional factors (bureaucratic delays and transparency) significantly positive affect budget utilization effectiveness.

Result: Accepted. The analysis revealed that bureaucratic delays had a significant negative effect on budget utilization ($\beta = -0.412$, $p < 0.01$), while institutional transparency had a significant positive impact ($\beta = 0.521$, $p < 0.001$). These findings are consistent with previous studies that emphasize the importance of institutional efficiency in effective budget execution.

•H2: Human resource capacity (training and competency) positively impacts budget utilization.

Result: Accepted. The results demonstrated that both employee training ($\beta = 0.384$, $p < 0.01$) and staff competency ($\beta = 0.273$, $p < 0.05$) are positively associated with budget effectiveness. This underscores the critical role of skilled and trained personnel in enhancing budget execution.

•H3: Financial management practices (controls, disbursement, and reporting) enhance budget utilization. Result: Partially Accepted. The hypothesis received partial support as financial controls ($\beta = 0.639$, $p < 0.001$) and financial reporting accuracy ($\beta = 0.495$, $p < 0.001$) showed significant positive effects. However, timely disbursement was not statistically significant ($\beta = -0.178$, $p = 0.062$), indicating that while strong controls and accurate reporting are vital, the aspect of timely disbursement needs further improvement.

•H4: External factors (political stability and economic conditions) significantly affect budget utilization. Result: Accepted. Political stability was found to have a significant positive effect on budget utilization ($\beta = 0.312$, $p < 0.001$), while economic conditions negatively impacted it ($\beta = -0.214$, $p < 0.05$). These findings align with empirical literature, suggesting that stable political environments favor effective budget management, whereas adverse economic conditions can hinder execution.

•H5: Project size and budget size moderate the relationship between independent variables and budget utilization.

Result: Accepted. Both project size ($\beta = 0.415$, $p < 0.01$) and budget size ($\beta = 0.523$, $p < 0.001$) were found to significantly moderate the relationship between the independent variables and budget utilization, highlighting their importance, especially in larger projects or budgets.

5. Conclusion

The study reveals that institutional factors play a pivotal role in budget utilization. Bureaucratic delays, which received a significant negative coefficient in the regression analysis ($\beta = -0.412$, $p < 0.01$), emerge as a crucial barrier, indicating that lengthy and convoluted administrative processes directly hinder the effective allocation and utilization of resources. Respondents consistently highlighted how these inefficiencies not only delay project initiation but also negatively impact the overall confidence in resource management within the Bureau. Therefore, it is imperative for the Finance and

Economic Development Bureau to streamline administrative procedures—optimizing workflows, reducing red tape, and improving decision-making processes—to facilitate a more agile budget utilization framework.

On the other end, institutional transparency demonstrated a robust positive association with budget effectiveness ($\beta = 0.521$, $p < 0.001$). This finding aligns with the theoretical premise that transparency fosters trust among stakeholders, reducing the likelihood of mismanagement and corruption. By enhancing transparency mechanisms—whether through public reporting, stakeholder engagement, or clear communication policies—the Bureau can not only optimize resource use but also bolster accountability and public confidence in financial management practices.

Another critical aspect illuminated by the results is the role of human resource capacity, including staff competence and training availability. The analysis shows that both staff competency ($\beta = 0.273$, $p < 0.05$) and employee training ($\beta = 0.384$, $p < 0.01$) significantly impact budget utilization. These results indicate that well-trained and competent staff are essential for the effective execution of budgetary processes. The qualitative data corroborates this, revealing a prevalent concern over inadequate training opportunities which hinder personnel from fully utilizing their potential in budget management.

6. Recommendation

Based on the findings of the study on the factors affecting the effectiveness of budget utilization within the Finance and Economic Development Bureau of Dire Dawa Administration, the following recommendations are proposed:

1. Streamline Bureaucratic Processes:

- ✓ Implement Process Reengineering: Evaluate and redesign administrative workflows to eliminate unnecessary bureaucratic delays, ensuring faster decision-making and project initiation.
- ✓ Adopt Technology Solutions: Utilize digital tools and automation to enhance efficiency in administrative functions and reduce processing times for budget approvals and disbursements.

2. Enhance Institutional Transparency:

- ✓ Establish Clear Reporting Mechanisms: Develop standardized financial reporting frameworks that provide detailed insight into budget allocations, expenditures, and outcomes to stakeholders.

- ✓ Increase Stakeholder Engagement: Foster a culture of openness by regularly engaging with community stakeholders, enabling them to participate in budget discussions and decision-making processes.
3. Invest in Human Resource Development:
- ✓ Provide Regular Training Programs: Develop and offer targeted training sessions for staff focused on budgeting processes, financial controls, and effective resource management.
 - ✓ Promote Professional Development: Encourage continuous education and certification in financial management among employees to enhance their competencies and operational effectiveness.
4. Strengthen Financial Management Practices:
- ✓ Enhance Financial Controls: Implement robust internal controls and regular audits to monitor financial transactions, thereby reducing the risk of errors or fraudulent activities.
 - ✓ Improve Reporting Accuracy: Ensure accuracy in financial reporting by establishing a reliable system for data verification and validation practices.
5. Focus on Timely Budget Disbursements:
- ✓ Create Efficient Disbursement Channels: Develop streamlined processes for budget disbursement that prioritize timely allocation of funds for projects, thereby reducing delays in project implementation.
 - ✓ Monitor Disbursement Timelines: Regularly assess disbursement timelines and establish accountability mechanisms to ensure adherence to agreed-upon schedules.

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Conflict of Interest

The author declares that there is no conflict of interest concerning the publication of this article. This research was conducted independently, and no financial, institutional, or personal relationships influenced the study's design, findings, or conclusions.

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