Promotional Financial Markets, Assets and Services in Ethiopian Financial Institutions

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Abstract

Finance is essential for every economic sector and which is not circulated in terms of money and money value related instruments and papers it will not multiply the money in the Ethiopian Financial Institutions. Unless money will multiply the Gross Domestic Product rate may not increase in the country. So, to multiply the money financial institutions must concentrate on foreign exchange services, intellectual property rights, domestic goods and services and aided money from the national and international agencies. Ethiopian Financial Markets must concentrate and work out the permutation and combinations to calculate the different financial markets, assets and services and which must be programmed and circulated around and outside the country so that there is a forward moment to develop the economy for the 80 million of population in the country.

Key words: Promotional Financial Markets, Financial Assets and Services, Ethiopian Financial Institutions, Capital Market, Primary Market and Money Market.

Introduction

Finance is very important for every sector of the economic development. As we all know that finance is money or money related values. Circulating of the money and money value in the domestic, national and international level always improve the Gross Domestic Product percentage which helps to the country development. As we are all know that every economy development based on foreign exchanges, domestic goods and services, intellectual property rights and aided money from the other governments, national and international agencies. We also know that countries can be classified into developing world countries and developing countries. If we talk about the developing world countries, their income mainly from foreign exchanges and intellectual property rights. Other developing countries income may be from domestic goods and services and aided money. Ethiopia is one of the fast developing country in East Africa which has unique tradition, culture, practices from 80 different tribes of 80 million people. National Bank of Ethiopia is providing several financial services and markets for the people welfare through the different financial institutions.

FINANCIAL INSTRUMENTS AND MARKETS

Cash, coins, cheque, drafts, bonds, loans of different services which can be found more in Ethiopian Financial Institutions. However, Ethiopian Financial Institutions, can also go for further promotional activities of the financial institutions and markets. They are Money Market Institutions, Capital Markets and Mutual Funds. Now, let us discuss each and every one of them.

MONEY MARKET INSTRUMENTS

Money market is a short term funds. The main money market instruments are treasury bills (T-Bills), Call/Notice Money Market, Certificate of deposits (CDs), Commercial Paper(CP and Commercial Bills (CB). The main players are, National Bank of Ethiopia, Commercial Bank of Ethiopia, Development Banks, Credit and Savings Associations, Micro Financial Institutions, Agricultural Banks and other private sector banks nationally and internationally.

The main money market functions are as follows,

- It provides a balancing mechanism (balancing demand and supply of funds).
- It provides a focal point for central bank interventions which influencing liquidity and interest rates.
- It provides reasonable access to suppliers and users of short-term funds.

The main benefits of money markets are,

- To provide a stable sources of funds through alternative financing structures.
- To manage risks arising from interest rate fluctuations.
- To manage the maturity structure of their assets and liabilities.
To provide the basis for growth and liquidity in the money market (secondary market for commercial paper and treasury bills).

If the money market is strong, the following, promotional activities taken place to promote Ethiopian financial markets.

To the Banks - It provides a stable source of funds through alternative financing structures. It manages different risks which arising from different interest rate fluctuations. It manages the maturity structures of their assets and liabilities. It provides the basis for growth and liquidity in the money market and secondary market for commercial paper and treasury bills.

To Non-Bank Intermediaries - It encourages increasing the competition for funds. It promote the savers to get a wide array of savings instruments to choose from and invest their savings. It provides an effective source of long-term finance to borrowers. Large borrowers can lower the cost of raising funds and to manage short-term funding or surplus efficiently.

To Capital Market and Foreign Exchange Market - It supports the long term debt market by increasing the liquidity of securities. The existence of an efficient money market is a preconditions for the development of a government securities market and a forward foreign exchange markets. A liquid and vibrant money market is necessary for the development of a capital market, foreign exchange market, and market in derivative instruments.

To Trading in Forwards, Swaps and Futures - The certainty of prompt cash settlements is essential for such transactions. The government can achieve better pricing on its debt as it provides access to a wide range of buyers. It facilitates the government market borrowing programme.

To Central Bank Policy - The money control through indirect methods such as repos and open market operations in more effective in the money market is liquid. The responses to the central bank's policy action is both faster and less subject to distortion.

The National Bank of Ethiopia influence liquidity and interest rates through cash reserve requirements, open market operations, repurchase of securities i.e repos, changing in bank rates and foreign exchange swap operations.

**CAPITAL MARKET**

Capital Market is the long term fund. It has two types. They are primary market and secondary market. Primary market is a new issue market which mobilise the funds through prospectus, right issues, and private placements and book buildings. The main participants may be issuers of securities, investors in securities and intermediaries.

Secondary market is a market where the old securities can be sold and brought. To enable them effectively over the counter exchange of Ethiopia may be promote them.

The very important constituent of the financial system market for long term funds such as equity and debt. It also helps to raise the funds from inside and also outside the country. Capital market helps to promote the economic growth, mobilizing the savings, channeling for productive uses and conducive for economic growth.

**Functions of Capital Market**

- It disseminates the information efficiently for enabling participants to develop an informed opinion about investment, disinvestments, reinvestments or holding a particular financial assets.
- It enables the quick valuation of financial instruments such as equity and debt with the proportional capital structure rates.
- It provides insurance against market risk or price risk through derivative trading and default of different risks through investments protection fund.
- It enables wider participation by enhancing the width of the market by encouraging participation through networking institutions and associating individuals.
- It provides operational efficiency through simplified transaction procedure, covering settlements timings and covering transaction costs.
- It develops interpreting amoung real sector and financial sector, equity and debt instruments, long term and short term funds, long term and short term interest costs, private sector and government sector and domestic funds and external funds.
- It directs the flow of funds into efficient channels through investments, disinvestments and reinvestments.

**MUTUAL FUNDS**

This is a fund created by contributions from members for the purpose of collective investment and mutual savings among members of the income and gains from activities of the fund.

If you have afraid of risk, go for Mutual Fund schemes. The driving force of safety of principal, stability of income and risk minimization. The major objectives of Mutual funds are as follows,

- It gives opportunities to small investors to invest.
Investors can participate in the corporate security market.
Mutual funds return more than the bank deposits.
The savings are in productive manner.
Mutual Funds provides different investment objectives/options
It always strengthens the capital market.

The merits of the Mutual Funds are,
- Safety of principal
- Stable and fair return
- Risk reduction
- Diversified portfolio
- Investors not to bother managing investments.
- It benefits of professional skills of fund manager
- The small & unsophisticated investors can benefit.
- Variety of schemes are available to choose
- Some schemes have a excellent liquidity.

Types of Mutual Funds

i. **On the basis of Investments**
- Bond fund which invest in corporate and government bonds which has safety of principal, stable earnings and lower risk.
- Stock fund which hold equity shares and convertible bonds, which has capital appreciation, good dividends and high risk.
- Income fund which hold high divided payout scripts and high rated bonds which has current income who has a goal of investments.
- Money market fund which invest in money market securities governed by central bank regulations.
- Leveraging fund aims at maximizing return by leveraging like operational, financial, and combined of them which has forwarded dealings and short sales resort.
- Balancing fund hold equity or debt scripts in a balanced manner which has balanced growth and balanced dividends funds.
- Growth fund has an investment in high growth in blue chips companies, which has a aim at low current income and high capital appreciation.
- Performance fund hold investment in scripts of unseasoned companies which has price earnings ratios and price volatility.
- Specialized fixed keeps their funds invested in private equity funds which has risk due to negligible diversification.

ii. **On the basis of functional**
- Open ended fund: in which, the period of the fund and target amount may not be specified. The holders can resell the securities to issuing mutual fund companies at any time. There is no restriction of selling among number of units.
- Closed ended funds – The close ended fund has a period of the fund which has a targeted amount can be specified. The units can be issued like companies and new issue market. The stock exchanges also quote the price.

iii. **On the basis of Geographic**
- Domestic fund which funds are mobilized from the domestic citizens. Off-shore mutual fund mobilize the funds from foreign land of foreign country.

iv. **On the basis of tax benefits.**
- Tax benefits fund which are eligible for tax exemptions. Mostly salaried class people prefer this scheme. Non Tax off scheme which has not tax benefit but it has a high capital appreciation and resale values.
CONCLUSION

Finance is essential for every development in this juncture of economic development of every developing country. Unless the money is circulated with multiplications economy cannot improve it. So, Ethiopian Financial Institutions would go for different financial services, markets and assets for their welfare of the people. Money which could be invested from the rich society would be diverted into the portfolio management of the needy community with permutation and combination of different financial instruments and papers along with the money programme will help the economy improvement so that the Gross Domestic Rate will improve in the country for the welfare and economy of the country. The financial assets, financial services and financial instruments must to be planned, organized, controlled, budgeted and reported for the infant, children, male, female, adults, old, insane, lunatics, orphans, deceased, beggars, drunkards, classified and unclassified people community towards their economic survival of 80 million population of the country with enough number of possible financial assets and services. If there is computer package of all that would be great to deal the success.

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