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THE STATE OF GHANA'S CAPITAL MARKET

Emmanuel Acquah-Sam

Wisconsin International University College, Legon, Accra, Ghana

samacquah@yahoo.com

Abstract

This paper presents the analysis of the views of capital market regulators, market managers, and market operators on the state of the capital market in Ghana. In this, the level of development of the capital market, the extent of participation in capital market activities, problems militating against its development and the suggested measures that can propel the overall development of the market are discussed. Primary data was mainly used for the study and was analysed by frequency distribution techniques. The study found that the market in Ghana is still developing, illiquid, because of inadequate participation in market activities by companies and individual investors. The market is also dominated by institutional and foreign investors. Market regulators, managers, and market operators are admonished to develop attractive products and implement appropriate policies to guide its development. The government of Ghana must ensure a stable macroeconomic environment to promote private participation in the market.

Key words

Ghana; Capital Market Development; Ghana Stock Exchange; Market Regulators; Market Managers; Market Operators.

INTRODUCTION

Capital markets authorities, managers, and operators undertake activities fundamental to the growth and development of capital markets in every country that operates a capital market. Their activities include policy formulation, policy implementation, product developments, investor education, and public awareness campaigns, market surveillances, market inspection, as well as offering investor protection. All these activities and many others should lead to improving market performance, development and integrity. Surveillance involves undertaking pre-emptive measures aimed at detecting fraud and deterring potential market abuse including market and price manipulations through insider trading and front running.

In Ghana the Securities and Exchange Commission (SEC), the Bank of Ghana (BoG), the Ghana Stock Exchange (GSE), the Ministry of Finance and Economic Planning (MoFEP) and Stock brokerage firms form the bedrock of market regulation, management and operations. Ghana successfully established a stock exchange in 1989. Yet, actual trading activities began in 1990. The establishment of the stock exchange, and fir that matter, the capital market stemmed from the fact that a well-functioning capital market was seen as a catalyst for accelerating Ghana's economic growth and development. As noted by Sowa (2003), after a woeful performance in the 1980's, Ghana liberalized its financial system under the Financial Sector Adjustment Program (FINSAP) to include the establishment of capital market as part of its overall 1988 macroeconomic adjustment program.

Progressively, the market is making inroads on the African continent. The capital market in Ghana was adjudged as the world's best performing market at the end of 2004 with a year return of 144 per cent in US dollar terms compared with a 30 per cent return by Morgan Stanley Capital International Global Index (Databank Group, 2004). After the official listing of Tullow Oil PLC on the exchange on Wednesday July 27, 2011, the GSE was reported to be the third largest capital market in Sub-Saharan Africa, after South Africa and Nigeria (Seidu, 2011). In 2012, the stock market seemed very vibrant for equity investors. This is shown by improvement in the All-Share Index in 2012 which increased by about 23.81%. By the end of December, 2012, the Ghana Stock Exchange had thirty-four (34) listed companies. The turnover volume for the reviewed year was GH₵218,134,338 ($121,185,743), representing a decline in growth of about 48.04% compared with the figure of GHc₵419,791,082 ($278, 007, 339) in 2011 (ISSER, 2013). It must be borne in mind that the cedis conversions to dollars were based on the exchange rates for the respective years. They are as follows: December, 2010 (GH₵1.43 to $ 1.00); December, 2011 (GH₵1.51 to $ 1.00); December, 2012 (GH₵1.80 to $ 1.00); and December, 2013 (GH₵1.97 to $ 1.00).

Despite some of the successes chalked by the market, some reports suggest that it has a small market size, low market liquidity, and low market participation by the public (Acquah-Sam & Salami, 2013). This study sought to find out from the capital market regulators, market managers, and market operators their views on the current state of the market with regard to the effect of their policies, surveillance, inspection, management of day-to-day activities on the market, the problems militating against the development of the market, and the recommendations for future development of the market. The findings are expected to inform the decisions of researchers, prospective investors and policy makers and stock brokers for the overall economic development of the market and Ghana as a whole. The next section looks at the literature reviewed on some of the functions of capital markets, the role of market regulators, market managers, and market operators in capital market activities.

LITERATURE REVIEW

The capital market is a place for the buying and selling of equity and debt securities, which have maturity periods exceeding one year. Levine (1997) attests to the fact that countries with better-developed financial systems experience faster economic growth than those without it. The World Bank (2013) adds that the development of an economy's financial markets is closely related to its overall development. Well-functioning financial systems provide good and easy access to information. This lowers transaction costs, which in turn improves resource allocation and boosts economic growth.

A well-developed financial market ensures the flow of funds from surplus spending units (those who spend less than their incomes) to deficit spending units (those who spend more than their incomes – household, business or investors and governments) in the society. There are people who lack the business acumen to run their own businesses or may be risk averse, but may have unused funds at their disposal. These groups of people save their excess funds with financial institutions (either by buying securities or time deposits). The two basic reasons people invest are their wish to reallocate consumption over time and the desire to become wealthy. These institutions, banks, capital markets, nonbank financial institution, in turn make the funds available at a fee to those who need capital for business activities. Thus, the financial system transfers savers' funds to borrowers and provides savers with payments for the use of their funds. When such funds are put into productive sectors of an economy, the economy grows to improve the welfare of the citizenry.

An efficient capital market requires continual development and implementation of appropriate policies, infrastructural development, periodic analysis and understanding of market conditions and the demands of enterprises seeking capital, and educating potential investors by the appropriate government agencies responsible for capital market activities and development.

The major areas that government impact upon the capital market relates to the creation of status and regulations, the monetary policies of government and the central bank; the supervisory functions of a securities commission or similar supervising authority. In order for the public to have confidence that the capital market is being run in a transparent manner, government officials must be involved in a continual process of understanding how the capital market operates; the principal problem areas faced by private companies; the major concerns of potential investors; the variety or forms of financial instruments in the market; the impact of regional and international development; the relationship between public and private sector finance; the most effective means of enforcement and sanctions (UNITAR/DFM, 2005). The Securities and Exchange Commission (SEC) is a government regulatory agency responsible for enforcing the rules governing the trading of securities and for approving new issues. The ministry of Finance also is in charge of government fiscal policies.

The key role of the central bank is in regulating interest rate, the money supply, and overall monetary policies of a country. The interest rate that the central bank sets for government treasury notes and other government debt obligations directly influence the capital market. Treasury bills and other government debts compete in the market for investors. If the central bank sets interest rate at high levels, investors will be more likely to put their money into government securities rather than private companies' securities. The more funds that go into government securities, the less there is available for private companies to secure capital for growth. Moreover, high interest rates for government debt securities necessarily will drive up the interest rate for company notes. The result will be that companies may find it very difficult to compete with the government and if they are able to match or exceed the government rate, the companies might find themselves under severe financial problems.

METHODOLOGY

This study employed both quantitative and qualitative research techniques. The study was done in Accra, Ghana. The study used questionnaires to obtain the data that was analysed. Questionnaires are the most commonly used instrument in gathering and measuring primary data because they present the same questions to all respondents thereby providing a comparable basis for assessment. The questionnaire method is also appropriate because of its convenience in given the respondents the independence and free will to express their thoughts and opinions.

The population and sample for the study were drawn from among the staff of the Securities and Exchange Commission (SEC), Ghana Stock Exchange (GSE), Bank of Ghana (BoG), Ministry of Finance and Economic Planning (MoFEP), and the twenty-one (21) Licensed Dealing Members (Stockbrokers) of the Ghana Stock Exchange. The main categories of respondents from the various organizations ranged from Directors, Managers, Deputy Managers, Stock Brokers and Dealers, Market Analysts, Financial Controllers, Budget Analysts, Heads of Departments, Fund Managers and Custodians. These answered the questionnaires based on their positions and direct involvement in capital market activities.

Forty (40) questionnaires were distributed to the above-mentioned respondents however, only twenty four (24) questionnaires were received for analysis. Convenience sampling method was used to sect respondents for the study. Responses from stock dealers and brokers were obtained when questionnaires were distributed to them after one trading session at the Ghana Stock Exchange. On the average every organization completed one questionnaire. The reason was that the answers provided by the employees who completed the questionnaires represented the views of their organizations. The responses of the respondents were analysed and presented in simple percentages and frequency distribution tables by the use of SPSS version 20. In this study, the researcher put in place measures recommended by Morse (2002), and Golafshani (2003) to ensure that the findings are both reliable and valid.

ANALYSIS

The Level of Development of Ghana's Capital Market relative to the Development of other Capital Markets in Sub-Saharan African Countries

The vies of respondents on the level of development of Ghana's capital market relative to the development of capital markets in other Sub-Saharan African countries were sought by the researcher for the study. One (1) respondent out of the twenty four (24) respondents, representing 4.2% of the total number of respondents, stated that Ghana's capital market is developed. Again, two (2) respondents, representing 8.3% stated that the market in Ghana is underdeveloped because it still has many challenges to deal with. Furthermore, the remaining twenty-one (21) respondents, representing 87.5% of the total number of respondents stated that capital market activities and other developments within the market show that the market in Ghana is still developing despite the challenges which militate against its development. Some studies have it that although the Ghana Stock Exchange (GSE) has been a source of mobilizing capital for many corporations, it still remains small and illiquid. Trading is discontinuous, the total value traded is less than 1 percent of GDP, and turnover is below 4 percent (Bawumia et al, 2008). That means that the state of the market in Ghana is not quite different from what pertains in many African countries. Yartey and Adjasi (2007) report similar characteristics of capital market activities for majority of Africa's stock markets. Irrespective of its challenges, the stock market in Ghana was reported to be the best stock market in Africa in 2013 in dollar terms and came second behind Malawi's stock exchange in terms of the local currency. The Accra Bourse retuned 56.14 and 78.81% profit respectively to investors in dollar and Cedi terms. The Malawi Stock Exchange on the other hand returned 56.08 and 108% growth to investors. The Managing Director of the GSE, Mr. Kofi Yamoah, was reported to have attributed the good performance to the excellent performance of listed companies for the whole of 2012 as well as the first, second and third quarters of 2013 (Radioxyz, January 8, 2014).

THE BONDS MARKET

With regards to the performance of the bonds market in Ghana, respondents stated that the bonds market in Ghana has had a relatively good performance over the past years. However, all the twenty-four (24) respondents stated that the bonds market is dominated by government bonds with a few private corporate bonds issued to the market. This may be due to reluctance on the part of companies to raise capital through the bonds market. Again, the reason may be that government bond securities tend to be risk free and offer higher returns as compared to corporate securities. This has reduced public and corporate interest in private companies' bond securities. ISSER (2013) has it that more government bonds were listed in 2011 than 2012. Listed government bond in 2012 were equivalent to GH₵5,939.13 million ($3, 299.52 million). There was no corporate bond listed during 2012. The Graphic Business in 2013 reported that according to the Ministry of Finance and Economic Planning of Ghana, the government of Ghana in January 10, 2013 issued a bond which recorded inflows to the tune of GH¢ 2.2 billion ($1.12 billion), translating into 450% oversubscription. The government however, accepted GH¢402 million ($204.1 million) at a coupon rate of 16.73%. It further adds that about 99% of the bids came from foreign investors and the remaining 1% from firms and institutions, commercial banks and individuals within the country. In July 2012, the government issued a medium term bond which was oversubscribed at GH¢775.14 million ($430.63 million), entitling the government to accept GH¢534.16 million ($296.76 million). The over subscription of government of Ghana debt instruments shows the confidence foreign investors have in the Ghanaian economy.

TYPES OF INVESTORS IN THE CAPITAL MARKET

The study also found that the capital market is domination by institutional and foreign investors. Nineteen (19) respondents, representing 67.9% of the total number of the respondents, indicated that the capital market is dominated by institutional investors. Again, eight (8) respondents, representing 28.6% of the respondents, also indicated that apart from institutional investors, the market is also tilting in the direction of foreign investors. The institutional investors are mainly pension funds, mutual funds, and insurance companies. This has contributes negatively to the liquidity and depth of the market because the institutions buy securities in bulk and hold them for a long time. The introduction of partial capital account liberalization in 2006 under the Foreign Exchange Act opened up the longer end of the market to nonresident investors and has helped accelerate development of Ghana's domestic bond market. However, one person (1), representing 3.6% of the respondents, indicated that the participation of local individual investors also needs commendation.

One major advantage in foreign domination is that the country can get access to the much needed foreign exchange to augment foreign exchange reserves of the country for infrastructural development. However, exponents of capital markets sometimes express worry about the rising interest of foreign investors in local capital markets. According to them, if the market is not adequately shared by local and retail investors, any sudden exit of these foreign investors from the market may lead to market downturns or crush in the capital market when investors decide to leave the market. Ekwere (2013) writes that foreign investors controlled over 70% of transactions in the Nigerian capital market. During the global economic meltdown which occurred in 2007 and 2008, a lot of global and local firms were negatively affected. In Nigeria, the worse hit sectors were the financial and manufacturing sectors and the capital market. In that year alone, the capital market lost huge funds, as the Nigerian Stock Exchange's All-Share Index fell from a height of 66,000 basis points in March 2008 to less than 22,000 points by January 2009. Also, over 70% of the total market capitalization of the exchange was wiped out during this period. Analysts attributed the crash in the Nigerian capital market in 2008 to the massive exodus of foreign investors from the equities market.

Bekaert and Harvey (2000) writing on the role of foreign speculators in emerging equity markets write that throughout history and in many market economies, the speculator has been characterized as both a villain and a savior. Indeed the reputation of the speculator generally depends on the country where he does business. In well-functioning advanced capital markets, such as the United States, the speculator is viewed as an integral part of the free market system. In developing capital markets, the speculator, and in particular the international speculator, is looked upon with many reservations.

Grossman (1995), and Grossman and Stiglitz (1980) (in Bekaert and Harvey, 2000) are of the view that economic theory generally suggests that speculative activities enhances the informative and allocative roles of assets markets thereby making markets more efficient. They point to the fact that foreign speculative activities in emerging markets help to reduce the potential of market manipulation in small emerging markets and increase market liquidity. Also, opening the market to foreign speculators may increase valuation of local companies, thereby reducing the cost of equity capital. In segmented capital markets, the cost of equity capital is related to the local volatility of particular markets.

CHALLENGES FACING THE CAPITAL MARKET IN GHANA

Capital market problems prevent the market from contributing effectively to business, and economic growth and development. Some of the challenges militating against the development of the market in Ghana as revealed by the study are as follows:

Inadequate Participation in Capital Market Activities

The study revealed that there is inadequate participation in the capital market by both investors and business firms. Twenty-three (23) respondents, representing

95.8% of the twenty-four (24) respondents, gave this answer to the question of the extent of capital market participation. Only one (1) person, representing 4.2%, answered that there is adequate participation in the market looking at the size of the market capitalization relative to some markets in some sub-Saharan Africa. The researcher further asked the respondents why there is inadequate participation in the capital market. Table 1 summaries the answers given by respondents regarding the factors contributing to inadequate participation in the capital market.

TABLE 1. FACTORS CONTRIBUTING TO INADEQUATE PARTICIPATION IN THE CAPITAL MARKET IN GHANA

Factors	Responses		Percent
	N	%	Cases
Inadequate knowledge about capital market activities among Ghanaians	20	35.1%	87.0
The Public's preference for money market instruments	18	31.6%	78.3
The public's interest in real estate/landed properties	9	15.85	39.1
Low income levels of Ghanaians	8	14.0%	34.8
Unwillingness to fully disclose information to the public	2	3.5%%	8.7
Total	57	100%	247.8

In Table 1, twenty (20) responses, representing 35.1% of total number of fifty-seven (57) responses, or 87.0% of the total number of respondents answered that inadequate knowledge about capital market activities is a major reason for inadequate participation in capital market activities. They concluded that proper education on market activities with appropriate incentives such as payment of dividends by companies at reasonable intervals to investors will go a long way to increase interest in capital market activities. The second major reason for inadequate participation in capital market activities is prospective investors' preference for money market instruments (such as 91-day treasury bills, fixed deposit, savings accounts etc) over shares and bonds. This constituted Eighteen (18) responses, representing 31.6% of the fifty-seven (577) responses, or 78.3% of the total number of respondents. The 91-day Treasury-bill of the government of Ghana is not only risk-free but also have attractive yield as compared to stocks which do not pay returns commensurate with the risk associated with them.

Furthermore, nine (9) respondents, representing 15.85% of the total number of responses, identified public interest in real estate/landed properties as a reason for inadequate participation in capital market activities. Landed properties appreciate in value within a short time and that people nowadays buy landed properties/real estates with a view to reselling them at higher prices in the future. Rent charges are very high in many big cities in Ghana so people now build houses for renting to earn incomes, which are relatively higher than the returns on capital market securities.

The fourth major factor contributing to inadequate participation in capital market activities is low income levels of Ghanaians. Eight (8) responses, representing 14.0% of the fifty-seven responses, or 34.8% of the total number of respondents, were of this view. As a result of the low incomes of Ghanaians many prospective investors find it difficult to save parts of their incomes in capital market securities. Though Ghana currently is said to be a middle income country, majority of Ghanaians are still poor. Many a Ghanaian lives from hands to mouth.

The last but not the least factor contributing to inadequate participation in capital market activities is that most business firms in Ghana are not willing to ensure full disclosure of information to the general public, and sometimes some structural disincentives in the market discourage most prospective participants from participating in the market. Only two (2) responses, representing 3.5% of the 57 responses or 8.7% of the total number of respondents, were in favour of this reason. The factors chosen by the respondents are in line with the findings of Acquah-Sam & Salami (2013).

Problem of Market Illiquidity

Respondents were asked about the level of liquidity of the capital market in Ghana. Sixteen (16) respondents, representing 66.7% of the respondents, indicated that the capital market in Ghana is illiquid. Trading takes place in a few securities and the rate at which trade takes place in most securities is low. Eight (8) respondents, representing 33.3% of the respondents, however, chose the option of low liquidity of the market rather than illiquidity. This supports the work of Bawumia et al, (2008). In Table 2 some possible causes of capital market illiquidity were specified by respondents.

In Table 2, sixteen (16) responses, representing 25.4% of the sixty-three (63) responses or 69.9% of the respondents, chose the option of inadequate knowledge and participation in capital market activities among Ghanaians as the major cause of market illiquidity or low market liquidity in Ghana. Again, fifteen (15) responses, representing 23.8% of the total number of responses, or 65.2% of the respondents chose the option of inadequate traded shares of listed companies as the second major cause of market illiquidity or low market liquidity in the capital market in Ghana. Furthermore, thirteen (13) responses, representing 20.60% of the responses, or 56.5% of the total number of respondents, were of the view that the major cause of market illiquidity is inadequate listed companies on the Ghana Stock Exchange. While there is a wide range of benefits that private companies and their shareholders can obtain from going public, there are also certain obligations that such companies must fulfill, particularly with regard to full disclosure of information to the public. This has discouraged many private companies from enjoying the benefits of going public.

Many private companies for personal reasons do not want outsiders to know the full details of what they do and the returns on their investments and that do not list on the GSE.

TABLE 2. FACTORS CONTRIBUTING TO ILLIQUIDITY OF THE CAPITAL MARKET IN GHANA

Factors	Responses		Percent
	N	%	Cases
Inadequate knowledge and participation in capital market activities among Ghanaians	16	25.4%	69.9%
Inadequate traded shares of listed companies	15	23.8%	65.2%
Inadequate listed companies on the Ghana Stock Exchange	13	20.60%	56.5%
Inadequate public interest in capital market instruments	10	15.9%	43.5%
Most securities traded are dormant	9	14.3%%	39.1%
Total	63	100%	273.9%

Also, ten (10) responses, representing 15.9% of the total number of responses, or 43.5% of the respondents, indicated that inadequate public interest in capital market instruments has contributed to market illiquidity. Lastly, nine (9) responses, representing 14.3% of the total number of responses, or 39.1% of the respondents, were of the view that low market liquidity or illiquidity has resulted from dormant capital market securities on the GSE.

Despite the challenges faced by the capital market, the respondents were still optimistic about a bright future for the capital market in Ghana. Twenty-three (23) respondents, representing 95.8% of the respondents, stated that the future of the capital market in Ghana is bright, other things being equal. This is based on the successes chalked by the capital market in recent years and the positive impact of other regulatory measures that have been implemented. However, one respondent stated that if the problems militating against the development of the capital market are not addressed the future remains bleak for the capital market in Ghana.

CONCLUSIONS AND RECOMMENDATION

The study sought the views of capital market regulators, market managers, and market operators on the state of the capital market in Ghana and the ways forward. It employed frequency distribution techniques for analysis. The study found that the market in Ghana is still developing and has achieved significant successes on the African continent over the last decade. However, it has problems such as market illiquidity, inadequate participation in market activities by companies and individual investors. The market is also dominated by institutional and foreign participants. The market has a bright future if the players in the market will be committed to playing their roles effectively as well as the implementation of appropriate policies to guide its development.

The study recommends that there must be increased public education to increase awareness about capital market activities in the country. Market regulators, managers and operators must organise more symposia, workshops, staff durbars, on the benefits of investing in capital market instruments and businesses going public. The OTC market though exists in Ghana, but it is dormant. This area also needs a critical attention if the overall development of the capital market can be realised to impact positively on the economy of Ghana. Again, investment companies (brokerage firms) must arrange with employers and employees to deduct workers contributions toward the purchase of shares from their salaries on monthly basis. Investors must be made aware that investment in capital market securities must be based on long-term perspective rather than short-term. This must go hand-in-hand with the payment of appropriate incentives like dividends nonmonetary incentives to investors at reasonable intervals.

Furthermore, the Bank of Ghana must make it mandatory for banks operating in Ghana which are unable to meet their capital requirements to raise the additional capital from the capital market. These banks will not only have easier access to long-term capital by going public, but will also experience improvement in the financial position of their banks, enhance their status in the community, and increase their incentives for their employees. The Parliament of Ghana should pass a law that makes it mandatory for multinational corporations which operate in Ghana to list on the Ghana Stock Exchange (GSE) to attract investors into the market to raise market participation, liquidity, capitalization and depth to impact positively on economic growth in Ghana.

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