

CHALLENGES AND PROSPECTS OF THE GHANA STOCK EXCHANGE

Michael Mensah¹, Dadson Awunyo-Vitor^{2*}, El Wilson Sey³

1. Department of Architecture, Kwame Nkrumah University of Science and Technology, Kumasi, Ghana

Tel: +233 (0) 244708581, E-mail: jeffersonmen@yahoo.com

2. Department of Agricultural Economics, Agribusiness and Extension, Kwame Nkrumah University of Science and Technology, Kumasi-Ghana.

Tel: +233 (0) 208152298, E-mail: Awunyovitor@yahoo.co.uk

3. Department of Banking and Finance, Wisconsin International University College, Ghana

Tel: +233 (0) 201351232 E-mail: ed_Sey@yahoo.com

* E-mail of corresponding author: jeffersonmen@yahoo.com

Abstract

The study investigated the challenges and prospects of the Ghana Stock Exchange. It also sought to ascertain the level of public awareness of the Stock Exchange and discover the availability of prospects on the Stock Exchange. The study design was cross sectional. Stratified and simple random, sampling methods were used for the study. Four set of questionnaire were used to collect data from listed companies, unlisted companies, Staff of Ghana Stock Exchange and individual investors. Descriptive and inferential analysis was carried out. The result revealed that the stakeholders expected higher performance compared to the actual performance of the Exchange. Also key challenges confronting the Ghana Stock Exchange (GSE) are liquidity challenges, low patronage by Ghanaian firms, low earnings, strict regulations and low media attention. The prospects include safe and sound political environment for investment and favourable tax policies. Thus the government need to take real pragmatic measures to boost the market in order to increase investors' confidence. Also the media should be seen reporting more on Stock trading activities as well as including Stock market and trading activities into the Ghanaian educational curriculum so that before student gets into senior secondary school, the awareness would have been created.

Key words: Ghana Stock Exchange, stock listing, listed firms, unlisted firms, firm performance

1. Introduction

Many countries in Africa Set up stock exchange in the early 1990s as a precondition for the introduction of market economies under the structural adjustment programs engineered by the International monetary institutions and to facilitate the privatization of state owned enterprises. The reform resulted in the establishment of new markets and improvement in the existing ones. Ghana initiated a Financial Sector Adjustment program in 1989 which was aimed at reforming and improving the banking sector and to develop the capital markets. The change of government to a free market policy was aimed at reducing its financial burden. Currently there are about sixteen stock broking firms licensed to deal with the exchange. Capital Market and Financial Sector Development in Sub-Sahara Africa (Applegarth, 2004; Clark, 2001; Elvin, 1997.

Africa equity markets remain a very small concern for many researchers; as compared to other market. As evidenced by few studies and literature on the development of stock/capital markets in Sub-Sahara Africa. International financial institutions and develop nations also seems to pay more attention to the Asian and Latin American frontier stock market in contrast to the Africa markets (particularly in Sub-Sahara Africa). Development of the Stock Exchange

The simultaneous listing of Ashanti Goldfields Co. Ltd (AGC) on the Ghana Stock Exchange and on the London Stock Exchange and the Subsequent listing on New York, Toronto and Zimbabwe Stock Exchanges has given the Ghana Stock Exchange a whole new international dimension and stature. With its current market capitalization, it has become one of the largest sub – Saharan Stock Exchange. Significant development have also taken place since the exchange begun it operations. The opening of the market to non- resident Ghanaians and foreigners in June 1993 was a big boost to the development of the market. Exchange control permission was given to foreigners and Ghanaians to invest through the Exchange without prior approval.

The Ghana Stock Exchange is a private sector initiative and is not founded by government but has enjoyed the support of the Government of Ghana. Stock Exchanges have over the years performed vital roles of helping companies raise equity capital and providing a secondary market for the trading of listed securities. This dual role has provided an access to capital for companies and liquidity for investors.

The idea of establishing a Stock exchange in Ghana laid on the drawing board for almost two decades prior to its implementation. The work of the committee was to consolidate all previous work connected to the Stock Exchange project and to fashion out modalities towards the actual establishment of the Exchange. As a result of the work of the committee, the Stock Exchange was established in July 1989 as a private company limited by guarantee under the Companies Code of 1963.

It was given recognition as an authorized Stock Exchange under the Stock Exchange Act of 1971 (Act 384) in October 1990. The Council of the Exchange was inaugurated on November 12, 1990 and trading commenced on its floor the same day. The Exchange changed its status to a public company limited by guarantee in April 1994 with the objective of providing facilities and framework to the public for purchase and sales of securities as well as regulating authorized dealing members of the Stock Exchange.

At the end of 2004, Ghana Stock Exchange (GSE) was adjudged the world’s best-performing market with a year return of 144 percent in US dollar terms, compared with 30 percent return by Morgan Stanley Capital International Global Index (Databank Group, 2004). The findings have shown that there is potential for a vibrant capital raising activity. Despite its improvement in the 20 years of operation, GSE still has relatively small number of companies listed on the stock exchange (compared to other Africa countries like Kenyan, Namibia, Egypt, South Africa etc); and it is not clear why many companies are not listed even though in terms of indicators it is one of the fastest growing Africa stock markets. The question is; what are the challenges and prospects of the Ghana Stock Exchange?

At the end of 2004, Ghana Stock Exchange (GSE) was adjudged the world’s best-performing market with a year return of 144 percent in US dollar terms, compared with 30 percent return by Morgan Stanley Capital International Global Index (DataBank Group, 2004). The findings have shown that there is potential for a vibrant capital raising activity. Despite its improvement in the 20 years of operation, GSE still has relatively small number of companies listed on the stock exchange (compared to other Africa countries like Kenyan, Namibia, Egypt, South Africa etc); and it’s not clear why many companies are not listed even though in terms of indicators it’s one of the fastest growing Africa stock markets. This paper aims to know the (i) challenges and prospects of the Ghana stock exchange, (ii) to know the number of listed and unlisted companies on the Ghana stock exchange.

2.Methodology

In this study, the population comprises the management and staff of the Ghana Stock Exchange, some listed companies, and individual investors on the market as well as unlisted companies. A breakdown is presented in the Table 1

Table 1 The Selection of the Sample Size

Classification of Sample	Sample Size
Staff of the Exchange	6
Listed Companies	24
Unlisted Companies	15
Individual Investors	15
Total	60

Source: Field work, 2011

2.1 Sampling procedure

Stratified and simple random and purposive sampling methods were used. Stratified sampling method was used to categorize the population into strata (Staff of the Exchange, Listed Companies, Unlisted Companies, Individual Investors) and then used simple random method to select from the Staff of the Exchange, the Listed Companies, and individual investors respectively. However purposive sampling method was used to select unlisted companies from Ghana club 100 based on their characteristics which qualify them to be listed on the Stock Exchange.

In the case of the unlisted Companies, the researcher decided to use the Ghana club 100 because; by logical and financial standard all the companies in the Ghana club 100 qualify to be listed on the Exchange.

2.2 Data Collection instrument

Interview guide and a questionnaire were adopted as an instrument of the study. The questionnaires were tailored to the objectives of the study and used to collect data from investors, listed, unlisted companies whilst interview guide was used to collect data from staff of the Ghana Stock Exchange. Questionnaire was used because it affords the respondents some level of independency (Nesbari, 1992'. Rous, 2002; Walter, 1984). International Opened ended questions were asked mostly to give the respondents more flexibility to make their opinions known (Best and Khan, 1995). It is more convenience for respondents to answer. However closed ended questions were also included to keep respondents answers focused on the questions. The data was analysed using Statistical Package for Social Sciences (SPSS) version 16 software.

3. RESULTS AND DISCUSSIONS

The results from the analysis of data obtained from the field are presented in this chapter. The respondents were put into four clusters comprising of the Staff of the Exchange who were (6), Listed Companies (24), Unlisted Companies (15) and Individual Investors (15), summing up to a total of 60 respondents as represented by the Table 2 below

Table 2 Cluster of respondents

Classification of Sample	Sample Size	Responses received	Response Rate
Listed Companies	24	20	83.3
Unlisted Companies	15	12	80
Individual Investors	15	11	73.3
Total	60	48	80

Source: Field work 2011

From Table 2, listed Companies questionnaires were 24 but 20 questionnaires were received given a response rate of 83.3%, in the case of the Unlisted Companies 15 questionnaires were given out and 12 were received representing 80 % response rate and Individual Investors were 15 of which 11 responses were received indicating a response rate of 73.3%.

3.1 Investor confidence on the Exchange

In a bid to know whether there is a consistent investor confidence on the Exchange, as Letiche, (2007) and Watson (1990), asserted that, a higher consistent investor confidence on a Stock Exchange could promote higher value for the investors. The investors were interviewed on average yearly listed companies. Various responses were given, "some were "I don't know", "this is a difficult question", "it is not necessary but two of them representing 40% were of the same opinion, saying that they could not have the time to calculate it" This implies that most of the investors are not following activities on the flow and this has implication for their investment in stocks listed on the exchange and consequently liquidity of the of the market.

3.2 Investor's perception on why companies are listed on the Ghana Stock Exchange

Investors understanding of reason for listing would facilitate their investment on securities of the exchange. Thus, sampled investors were interviewed on why companies are listed on Ghana Stock Exchange. The respondents gave mixed responses which are presented below. A respondent representing said "to increase the vibrancy of the stock exchange" and "to increase market capitalization", "This he believe will promote the image of the stock exchange". Another respondent also espoused that, creating a market for company's shares", "enhancing the status and financial standing of the company". The rest noted that companies are listed on the exchange to saying " increasing public awareness and public interest in the company and its products, providing

a company with an opportunity to implement share option schemes for their employees”, in addition it help to company to be able to access additional funds in the future when the need arise

Clearly these responses showed that most of the investors are aware of the reason why companies are listed on the exchange but not necessarily for investors to purchase share in these companies as none of the respondents mention that. However, that is the key reason for getting companies listed. Therefore there is the need for education of the investing public on the need for them to invest in securities on the exchange.

3.3 Investors awareness of the earnings abilities of the Exchange

According to Rogers, (2010), the earnings abilities of any stock exchange depict the wisdom behind investors decision, in responding to the question of earnings abilities of the exchange in terms of stock appreciation, all the respondents offered the same answers, they said turnover between January and July 2010 in terms of volume was 83.25 million, in terms of value, it was 51.72 GH Cedis and average volume traded was 0.67million Ghana cedis with a corresponding value of 0.41.

Table 3 present the market Statistics of the Ghana Stock Exchange. From the Table results indicate a consistent marginal increase in terms of volume traded, value traded and market capitalization from the year 2001 to 2004. In 2005, there was a slight fall in the variables. However, the situation changed from 2006, where the Exchange recorded continues increment up to 2009. The 2010 figures of 83.25 million, 51.72 GH Cedis, 18,270.11 respectively were between the period of January 2010 to July 2010, (6 Months), it can be said that if within 6 Months the Exchange had produced such figures then by logical quantitative deduction the 12 months of 2010 may give an increment in the variables all things being equal. From the results it can be stated that the earnings abilities of the Exchange is satisfactory.

Table 3 Earnings Abilities of the Exchange

Period	Total Volume traded (000)	Total Value Traded (GH Cedis in Millions)	Year End Market Cap. Equities (GH Cedis in Millions)
2001	55,295.87	9.23	390.40
2002	44,124.20	8.94	618.38
2003	96,330.00	38.93	1,261.68
2004	104,349.30	65.59	9,761.48
2005	81,400.00	46.44	9,185.73
2006	98,286.00	47.60	11,249.60
2007	287,221.70	140.71	12,368.60
2008	531,660.00	365.51	17,895.12
2009	96,767.39	74.19	15,941.92
2010	83.25	51.72	18,270.11

Source: Ghana Stock Exchange 2011

The investors were asked if they are aware of the earning situation of the securities listed on the Ghana Stock Exchange and all of the respondents indicated that they are away

3.4 Meeting investors expectation

The study further found out from the investors whether their expectations are being met.. The result is presented in Table 4. Results presented in Table 4 revealed that out of the number of investors interviewed one respondent representing 20% said in terms of share appreciation the index was better, however two of them representing 40% asserted that the participation of companies both local and foreign it has not been the best. The other two respondents representing 40% could not give an answer to the question.

Table 4 Meeting Expectations of investor

Responses	Frequency	Percentage
In terms of share appreciation the index was better	1	20
In terms of more participation of companies both local and foreign, it has not been the best	2	40
Failing to answer	2	40
Total	5	100

Source: Field work 2011

3.5 Achieving the objectives for investing in securities

The investors were asked to indicate whether their objectives for listed has been achieved. The result is presented in Table 5. The results revealed that 50 % of the respondents were not satisfied with their achievement. 10 % said their expectations were not met but were optimistic while 15% were of the opinion that they were yet to achieve their objectives. A total of 5 respondent representing 25 % said their objectives were partly fulfilled.

Table 5 Response to achieving Objectives for investing in securities.

Responses	Frequency	Percentage
Not as expected	10	50
No but they are optimistic	5	25
They were yet to see	3	15
Partly fulfilled	2	10
Total	20	100

Source: Field Work 2011

Results showed that there is a general consensus among the investors that there should be more education on the activities of the Stock Exchange, automation and relaxation of trading regulations.

3.6 Listed companies

3.6.1 Reason for listing on the Exchange

Getting listed on the Ghana Stock Exchange can be quite expensive and tedious. Companies who take the pain to go through this process may have a genuine reason for doing that. Listed companies were asked to state the major reason why they get listed on the Ghana Stock Exchange despite the cost involved. The result is presented in Table 6. Out of the 20 respondents that have returned their questionnaires, 15 respondents representing 75% indicate that their decision to get listed is influenced primarily by the need to raise long term funds to support their operations. Whilst 3 respondents representing 15 % said they need funds, the overriding reason is to be visible and enhance their reputation with 2 respondents representing 10% saying the overriding reason is to diversify risk.

Table 6 Response to reasons for listing on the Exchange

Responses	Frequency	Percentage
Raising of funds	15	75
Prestige	3	15
Risk diversification	2	10
Total	20	100

Source: Field Work 2011

3.6.2 Companies Meeting their Objective for Enlistment

Knight (2006) alluded that companies go public for varied reasons, some of which are to seek for funds, for prestige, to increase participation and the likes. However these objectives must be met, hence sampled listed companies were asked if they are meeting their objectives. All the listed companies indicate that the primary reason for listing is to raise funds. According to them this objective has been achieved as three companies represented 60% indicated that they were oversubscribed during Initial Public Offer (IPO). This means that there is opportunity for companies to raise long term funds on the Ghana Stock Exchange.

3.6.3 Expectations of Listed Companies

There are many expectations of listed companies on the Ghana Stock Exchange. Results from Table 7 showed that 85 % of the listed companies interviewed expect Stock appreciation and dividend growth while 10% said they want more investors on the trading floor. Only 5 % of respondent had expectation of automation in terms of trading activities.

Table 7 Expectations of Listed Companies

Responses	Frequency	Percentage
Stock appreciation and dividend growth	17	85
More investors on the trading floor	2	10
Automation of trading activities	1	5
Total	20	100

Source: Field Work 2011

The listed companies were asked to indicate their expectation of the exchange, or what they would like to see the exchange doing which would improve the performance of the exchange and in the long run improve the performance of their companies. The result is presented below.

- Increasing public awareness and public interest in the company and its product.
- Providing companies with opportunities to implement share option scheme for their employee.
- Offering existing shareholders a ready means of realizing their investments.
- Enhancing the status and financial standing of the company.
- Facilitating acquisition opportunities by use of company's shares.
- Creating a market for the company shares.
- Accessing additional fund raising in the future by means of new issues of shares or other securities.

3.6.4 Concerns of the Listed Companies

Every human institution has its challenges and the Ghana Stock Exchange is not an exception. In knowing some of these concerns, the researcher asked the respondents of which similar answers were provided. Some concerns raised by the listed companies were;

- (i) a need for more liquidity
- (ii) need for more competition
- (iii) reduction in the fees of the exchange and
- (iv) difficulty in meeting the reporting standards of the exchange.

3.7 Unlisted companies

Why qualified companies are not listing

One of the most important requirements of a Stock Exchange is to have more companies listed to attract investors both institutional and individuals. However, for the past two decade that Ghana Stock exchange has been established only 34 companies are listed so far. Though there are a number of companies who qualified to be listed on the exchange but they are not. The study attempts to find out reason why these companies are not listed by asking sampled unlisted companies why they are not listed. Their responses are presented in table 8. Forty percent of the respondent (unlisted companies) are small in size and are unwillingness to share ownership. Lack of understanding of listing process and operations of the Ghana Stock Exchange was cited by 20% of the respondents as reason why they are not listed. The rest are concern about bad publicity that they would enjoy as listed companies where their financial records would be a matter of public discourse. 40 % indicated that the exchange exposes their earning to the general public.

Table 8. Response to reasons why most Ghanaian Companies are not listed on the Stock Exchange

Reasons	Frequency	Percentage
Small size, most local companies do not want to share ownership,	2	40
Lack of understanding of the operations of the stock exchange market	1	20
The exchange is a way of exposing their earning to the general public	2	40
Total	5	100

Source: Field work 2011

Staff of the Exchange 17

A focus group discussion of the staff of the exchange revealed that there are many challenges facing the Stock Exchange. These challenges are enumerated by the respondents as:

- Problem of liquidity,
- Limited number of securities,
- Small number of floating shares,
- Non-performing companies,
- High cost of listing on the Stock Exchange and
- Inadequate capitalization of Licensed Dealing Members.

3.8 Prospect of the Ghana Stock Exchange as perceived by the staff

Despite these challenges they also identify some opportunities which are:

The exchange has the potential to assist companies to raise long term capital as the exchange has done over the years. The exchange also provides secondary market for trading of listed stocks. These dual roles has granted an access to capital for companies and liquidity for investors

- i. As the exchange has been automated it has the potential to improve efficiency of service delivery and to facilitate business on the Stock Exchange.
- ii. The Small and Medium Scale Enterprise that wish to raise long term funds are also catered for by the creation of special desk at the Exchange to meet their needs.

3.9 Process of enlistment as presented by the staff of the exchange

The process of enlistment which comprises the preparation of the prospectus which contains the profile of the company, financial capacity, vision and mission has been identified as one of the major barrier to enlistment by unlisted companies. This will then be approved by the Securities and Exchange Commission.

3.10 Factors Responsible for Ghanaian Companies not Patronising the Stock Exchange 20

Factors responsible for less patronage of the Stock Exchange by Ghanaian Companies are presented in Table 9. From the Table, a total of 8 respondents representing 73 % revealed that lack of education is one of the major factors contributing to less patronage of the Exchange by local companies. A respondent representing 9.1 % attributed the less patronage to the desire for quick money on part of investors whiles 18.2 % said rigid rules and regulation is the cause of the less patronage of the Exchange by Ghanaian companies.

Table 9. Response to factors responsible for less patronage of the Stock Exchange
 Ghanaian Companies

Responses	Frequency	Percentage
Lack of education	8	73%
Desire for quick money	1	9.1%
Rigid rules and regulations	2	18.2
Total	11	100

Source: Field Work 2011

To project the image of the Ghana stock exchange there is the need for intensive education and advertisement as well as government support.

3.11 Conclusion and policy implications

In relation to the research questions, the investigations revealed the following: The challenges confronting the Ghana Stock Exchange (GSE) and stock market development are: Lack of education on the Exchange, Outdated method of doing business, lack of efficiency, challenges of liquidity, limited number of securities, interest rate anomaly, small number of floating shares, non-performing companies, high cost of listing on the Stock Exchange, non-existence of credit rating agencies, and inadequate capitalization of Licensed Dealing Members and rigid regulations.

The factors making it difficult for more companies to be listed on the stock exchange are lack of awareness of the existence and operations of the stock exchange, unwillingness to share ownership, unwillingness to display earnings, mother companies of subsidiary companies already listed on another international stock exchange and lack of understanding of stock trading. From the study, it was revealed that most Ghanaians are not aware of the existence and activities of the Ghana Stock Exchange due to low publicity and lack of government participation.

There is however prospects available on the stock exchange in terms of Stock Exchange automation where business can be done outside the trading floor, the creation of special desk for small and medium enterprises will help more of the small and medium enterprise to be listed on the Exchange. There is a likely increase in market capitalization due to Oil Companies (Tullow oil) listing on the Stock Exchange.

Based on the findings, it is recommended that government intervene not only by providing tax holidays but also public education on the activities of the Stock Exchange, inclusion of activities of Stock Exchange in curriculum of secondary and tertiary schools. The media should also devote more space to stock trading activities to boost the market hence increasing investor confidence. It is also recommended that managers relax trading rules to promote trade on the Stock Exchange.

References

- Applegarth V. P (2004). Capital market and financial sector development in Sub-saharan Africa. A report of the Africa Policy Advisory Panel.
- Best, K. and Khan, S., (1995). Real World Research, Oxford, Blackwell
- Clark, D., (2001). Third World Economic Development, World Bank, World Development
- DataBank Group (2004) (<http://www.evancarmichael.com/African-Accounts/1667/III-Stock-market-Development-IN-Sub-saharan-Africatrend-and-characteristics.html> accessed on 20th August, 2011
- Elvin, P., (1997). International Capital Finance, Thompson Publishing Company. London
- Letiche, A., (2007). Dictionary of Stock Market, Addison Wesley Longman Inc. 1997.
- Knight, D., (2006). Financial Integration and Development: Liberalization and Reform in sub-Saharan Africa, London: Routledge
- Nesbari (1992). Theory in Social Research: The Link Between Literature and Observation; London: Woeli Publishing Services
- Rous, G., (2002). Technology side of Stock Exchange. Business Journal, 16, 25-31.

- Walter, E (1984). International Financial Management (6th ed) .New York : Academic Press.
- Watson, E., (1990), International Money and financial management, Addison Wesley Longman Inc. 1997.
- Ghana Stock Exchange, Bulletin, 2009.
- Ghana Stock Exchange Bulletin,2010.
- Ghana Stock Exchange Bulletin, 2011.