THE IMPACT OF GHANA STOCK EXCHANGE ON THE GROWTH OF THE CAPITAL MARKET OF GHANA

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DECLARATION

We have read the university regulations relating to plagiarism and certify that this report is all our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

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Supervisor's Declaration

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ABSTRACT

The study was aimed at the assessment of the impact of Ghana Stock Exchange on the growth of the capital market of Ghana. The study further found out the regulatory bottlenecks and procedures and again the benefits of enlisting on the Ghana Stock Exchange. To facilitate the research work, the study sampled two firms, Produce Buying Company and PZ Cussons which is listed on the Ghana Stock Exchange. The purposive sampling technique was used to sample out 15 management staff from these two firms to answer the research questions. The instrument used to gather data for the study is a self administered questionnaires. Data collected was analyzed using descriptive statistical method (a method which quantitatively describes the main features of a data collection), and recommendation and conclusions were drawn. The outcome of the study revealed that Ghana Stock Exchange have impacted positively on the growth of the capital market of Ghana. The stock exchange has provided listed companies with easy access to long term capital, assisted in government divestiture programme, caused improvement in their financial position, has created job and wealth and has enhanced their status in the community by making them well known.

DEDICATION

We sincerely wish to dedicate this work to the Almighty God for seeing us through this work. We also dedicate this work to our respective families and friends for their constant love, prayers and support. Finally to all dedicated lecturers, who made the journey with us and never failed to show us the way.

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CHAPTER ONE

INTRODUCTION

1.0 Background to the Study

Mobilization of resources for national development has long been the central focus of development economists. As a result of this, the centrality of savings and investment in economic growth has been given considerable attention in the literature (Rostow, 1960; Malivaud, 1979; Demirguc-Kunt and Levine, 1996). The 1970s and 80s have seen more fundamental changes in the finance and investment than any other similar period since the great depression which ushered in massive reforms in the economy and securities market.

For sustainable growth and development, funds must be effectively mobilized and allocated to enable businesses and the economy harnessed their human, material, and management resources for optimal output. The stock market is an economic institution, which promotes efficiency in capital formation and allocation. The stock market enables governments and industry to raise long-term capital for financing new projects, and expanding and modernising industrial/commercial concerns.

Capital market is a market which individuals and institutions trade financial securities. Both public and private sector organizations also often sell securities in the market in order to raise funds. Both the bond and stock market are parts of the capital market. If capital resources are not provided to those economic areas, especially industries, where demand is growing and which are capable of increasing production and productivity, for the benefits of the economy, the rate of expansion of the economy often suffers.

A unique benefit of the stock market to corporate entities is the provision of long-term, non-debt financial capital. Through the issuance of equity securities, companies acquire perpetual capital for development. Through the provision of equity capital, the market also enables companies to avoid over-reliance on debt financing, thus improving corporate debt-to-equity ratio. The existing literature clearly shows that developed economies had explored the two channels through which resources mobilization affects economic growth and development – money and capital markets (Samuel, 1996; Demirguc-Kunt and Levine, 1996). This is however, not the case in developing economies where emphasis was placed on money market with little consideration for capital market (Nyong, 1997).

Since the introduction of structural adjustment programme (SAP) in Ghana, the country's stock market has grown very significantly (Alile, 1996 ;). This is as a result of deregulation of the financial sector and the privatization exercises, which exposed investors and companies to the significance of the stock market. Equity financing became one of the cheapest and flexible sources of finance from the capital market and remain a critical element in the sustainable development of the economy.

Though stock market is growing it is however characterized by complexities. The complexities arise from trends in globalization and increased variety of new instruments being traded: equity options, derivatives of various forms, index futures etc. However, the central objectives of the stock exchanges worldwide remain the maintenance of the efficient market with attendant benefit of economic growth (Alile, 1997).

The link between stock market performance and economic growth has often generated strong controversy among analysts based on their study of developed and emerging markets (Samuel, 1996; Demirguc-Kunt and Levine, 1996 ;). According to Nyong (1997) the financial structure of a firm, that is, the mix of debt and equity financing, changes as economies develop. The tilt is however, more towards equity financing through the stock market.

As economies develop, more funds are needed to meet the rapid expansion. The stock market serves as a veritable tool in the mobilization and allocation of savings among competing uses which are critical to the growth and efficiency of the economy (Alile, 1984). The determination of the overall growth of an economy depends on how efficiently the stock market performs its locative functions of capital. As the stock market mobilizes savings, concurrently it allocates a larger proportion of it to the firms with relatively high prospects as indicated by its rate of returns and level of risk.

The importance of this function is that capital resources are channelled by the mechanism of the forces of demand and supply to those firms with relatively high and increasing productivity thus enhancing economic expansion and growth (Alile, 1997).

1.1 Problem Statement

The Ghana Stock Exchange was set up with the following objectives;

- to provide the facilities and framework to the public for the purchases and sales of bonds, shares and other securities;

- to control the granting of quotations on the securities market in respect of bonds, shares and other securities of any company, corporation, government, municipality, local authority or other body corporate;
- to regulate the dealings of members with their clients and other members, to co-ordinate the stock dealing activities of members and facilitate the exchange of information including prices of securities listed for their mutual advantages and for the benefit of their clients;
- To co-operate with associations of stockbrokers and Stock Exchanges in other countries, and to obtain and make available to members information and facilities likely to be useful to them or to their clients.(www.gse.com.gh).

Notwithstanding the affirmative impact, Ghana Stock Exchange has had on several companies in terms of capital contribution towards the running and expansion of these companies and in the long-run increasing the Gross Domestic Product of Ghana, most people are not aware of this achievement. The researcher aims to find out the major contributions of Stock Exchange to the development of Ghanaian economy.

1.2 Objectives of the Study

The researchers have set out to examine Ghana Stock Exchange as contributing factors toward the growth of the capital market in Ghana.

The study will specifically look at the following objectives:

- To find out the impact of Ghana Stock Exchange in the capital market of Ghana.
- To find out the regulatory bottlenecks and procedures of enlisting on the Stock Market.
- To find out the benefits of enlisting on the Ghana Stock Exchange.

1.3 Research Questions

- What is the impact of Ghana Stock Exchange in the capital market of Ghana?
- What are the regulatory bottlenecks and procedures of enlisting on the Ghana Stock Exchange?
- What are the benefits of enlisting on the Ghana Stock Exchange

1.4 Significance of the Study

The research, Assessment of the Impact of Ghana Stock Exchange to the Capital Market is innovative because it brings together examination of national dialogue about Ghanaian capital market with a study of practise, Stock price performance on the Exchange.

It's believed the research will be helpful to every Ghanaian including foreigners who own businesses and desire to be part of GSE success story. Ultimately the study will bring investors and business groups together for the sale and purchase of securities in the common and capital market.

1.5 Limitations of the Study

The researchers had limited time to complete this study so the researchers could not sample all the 35 firms listed on the Ghana Stock Exchange.

1.7 Organization of the Study

This study is made of five (5) chapters.

The first chapter of the study entails the background study, problem statement, objectives of the study, research questions, significance of the study, research method and limitation of the study as well as organization of the study. Chapter two of the study seeks to review previous related research work on the study. Chapter three contains the research design and methodology. It explains in full the questionnaires, interviews and processes of the study. The data source and collection instrument, sampling methods and size will all be dealt with in this chapter. Chapter four of the study is about the data analysis and interpretations. That is how the data collected are analyzed, observed and interpreted. Finally, chapter five will also talk about the conclusion, recommendation and suggestions for further study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The stock market is in the focus of the economist and policy makers because of the perceived benefits it provides for the economy. The stock market provides the fulcrum for capital market activities and it is often cited as a barometer of business direction. An active stock market may be relied upon to measure changes in the general economic activities using the stock market index (Obadan, 1995).

The stock market is viewed as a complex institution imbued with inherent mechanism through which long-term funds of the major sectors of the economy comprising households, firms, and government are mobilized, harnessed and made available to various sectors of the economy (Nyong, 1997). The development of the capital market, and apparently the stock market, provides opportunities for greater funds mobilization, improved efficiency in resource allocation and provision of relevant information for appraisal (Inanga and Emenuga, 1997).

Stock market contributes to economic growth through the specific services it performs either directly or indirectly. Notable among the functions of the stock market are mobilisation of savings, creation of liquidity, risk diversification, improved dissemination and acquisition of information, and enhanced incentive for corporate control. Improving the efficiency and effectiveness of these functions, through prompt delivery of their services can augment the rate of economic growth.

At any stage of a nation's development, both the government and the private sectors would require long-term capital. For instance, companies would need to build new factories, expand existing ones, or buy new machinery. Government would also require funds for the provision of infrastructures. All these activities require long-term capital, which is provided by a well functioning stock market.

2.1 Account of Stock Exchange

Securities markets took centuries to develop. The idea of debt dates back to the ancient world, as evidenced for example by ancient Mesopotamian clay tablets recording interest-bearing loans. There is little consensus among scholars as to when corporate stock was first traded.

Some see the key event as the Dutch East India Company's founding in 1602, while others point to earlier developments. Economist Ulrike Malmendier of the University of California at Berkeley argues that a share market existed as far back as ancient Rome. In 11th century France the “courtiers de change” was concerned with managing and regulating the debts of agricultural communities on behalf of the banks. As these men also traded in debts, they could call first brokers. Some stories suggest that the origins of the term “bourse” come from the Latin bursa meaning a bag because, in 13th century Bruges, the sign of a purse (or perhaps three purses), hung on the front of the house where merchants met. However, it is more likely that in the late 13th century commodity traders in Bruges gathered inside the house of a man called Van der burse, and in 1309 they institutionalized this until now informal meeting and became the “Bruges Bourse”.

The idea spread quickly around Flanders and neighbouring counties and “Bourses” soon opened in Ghent and Amsterdam. In the middle of the 13th century, Venetian bankers began to trade in government securities.

In 1351, the Venetian government outlawed spreading rumours intended to lower the price of government funds. There were people in Pisa, Verona, Genoa and Florence who also began trading in the government securities during the 14th century. This was only possible because these were independent city states ruled by a council of influential citizens, not by a duke.
The Dutch later started joint stock companies, which let shareholders invest in business ventures and get a share of their profits or losses. In 1602, the Dutch East India Company issued the first share of the Amsterdam. It was the first company to issue stocks and bonds. In 1688, the trading of stocks began on a stock exchange in London.

On May 17, 1792, twenty-four supply brokers signed the Buttonwood Agreement outside 68 Wall Street in New York underneath a buttonwood tree. On March 8, 1817, properties got are named to New York Stock & Exchange board. In the 19th century, exchanges (generally famous as future exchanges) got substantiated to trade future contracts and then choices contracts. There are now a large number of stock exchanges in the world. (www.wikepedia.com).

2.2 Contemporary Development in Stock Exchange

It seems any program of financial liberalization in Africa is incomplete without the establishment and development of stock market. Over the past few decades, the world stock markets have surged, and emerging markets have accounted for a large amount of this boom.

In Africa, new stock markets have been established in Ghana, Malawi, South Africa, Nigeria, Uganda and Zambia. Prior to 1989, there were just five stock market in Sub Saharan Africa and three in North Africa. Stock market development has been central to the domestic financial liberalisation programs of most African countries. The drive towards the establishment of stock markets in African countries during the last few decades may be linked to other important development in the global economy.

The financial markets of many advanced countries have undergone tremendous changes and become increasingly integrated. These changes have resulted from the operation of a number of interrelated factors (Cosh, Hughes, and Singh, 1992):

- The progressive deregulation of financial markets both internally and externally in leading economies;
- The internationalization of these markets;
- The introduction of number of financial products allowing riskier and bigger financial investment; and
- The emergence and the increasing role of new actors in the financial markets particularly, institutional investors.

The establishment of stock markets in Africa is expected to boost domestic savings and increase the quantity and quality of investments. More generally, stock markets are seen as enhancing the operations of the domestic financial system in general and the capital market in particular (Kenny and Moss, 1998).

Critics, however, argue that the stock market might not perform efficiently in developing countries and that it may not be feasible for all African markets to promote stock markets given the huge cost and the poor financial structures (Singh, 1999). The large amount of academic and policy interest shown over the past decade in promoting stock market development in African countries raises a number of policy questions:

- What benefits does a country gain from having a stock market?
- Are they playing an important role in allocating capital to industry?
- What is the relationship between stock market development and economic growth?
- How do you make the stock market more functional to African countries? These are the types of questions addressed in the paper.

2.3 Stock Market Development in Sub Saharan Africa: Trend and Characteristics

There has been a considerable development in the African capital markets since the early 1990s. Prior to 1989, there were just five stock markets in sub-Saharan Africa and three in North Africa. With the exception of South Africa, most African stock markets doubled their market capitalization between 1992 and 2002.

Total market capitalization for African markets increased from US $ 113,423 million to US$244,672 million from 1992 to 2002. The rapid development of stock markets in Africa does not mean that even the most advanced African stock markets are mature. In most of these stock markets, trading occurs in only a few stocks which account for considerable part of the total market capitalization. Beyond these actively traded shares, there are serious informational and disclosure deficiencies for other stocks.

Further, supervision by regulatory authorities is often far from adequate. The less developed of the stock markets suffer from a far wider range of such deficits. Low liquidity means that it will be harder to support a local market with its own trading system, market analysis, brokers, and the like because the business volume would simply be too low.

Despite the problems of small size and low liquidity, African stock markets continue to perform remarkably well in terms of return on investment. The Ghana Stock Exchange was adjudged as the world's best-performing market at end of 2004 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). Within the continent itself five other bourses-Uganda, Kenya, Egypt, Mauritius and Nigeria apart from Ghana-were amongst the best performers in year

2.4 Financing Corporate Growth in Ghana: The Role of the Stock Market.

Listed corporations in Ghana finance their growth and to what extent do they rely on external finance relative to internal finance. As companies expand through the acquisition of assets they have choices to make in how that growth is financed. Past earnings can be retained as a source of internal finance or be paid to shareholders as dividends.

External sources of finance include both the issuance of new equity (external equity) and various debts instruments (external debt). Using the growth in balance sheet over the period 1995 to 2002 as the sample period, the financing of the growth in total assets is divided into these three categories expressed as a percentage of change in total assets for the period. The results show that the stock market is the most important source of long term external finance.

Between 1995 and 2002 the average quoted Ghanaian firm finances 11.45 percent of growth of total assets from internal sources. External debt, however, finances 47.86 percent of growth of total assets and new issues of equity finances 40.69 percent of growth in total assets. (Singh, 1995).

The examination of debt maturity (short term debt relative to total debt) shows that about 84 'percent of total debt is short term. This result may be subject to measurement biases resulting from high inflation and the use of an indirect method of measuring the equity finance variable (Singh, 1995). One potential effect of the residual estimation of equity financing variable is that it is likely to have an upward bias due to fact that revaluations and reserves may get included in equity variable (Singh, 1995).

Following Whittington, Saporta and Singh (1997), in this alternative method, the equity finance variable is measured independently while the internal finance variable is made the residual. The result of the direct method shows that the contribution of equity to total assets growth for the median listed Ghanaian firm has reduced to 12.30. Internal finance is now the second most important source of finance after total liabilities. A comparison with the indirect method overstated the contribution of equity to total assets growth by 20.85 percentage points (33.05-12.20).

2.5 Determinates of Stock Market Development in Ghana and Africa

Stock market development at least creates the enabling environment for a successful economic growth. The policy question therefore is what determines stock market development? The literature suggests that sound macroeconomic environment, well developed banking sector, transparent and accountable institutions, and shareholder protection are necessary preconditions for the efficient functioning of stock markets in Africa.

2.5.1 Macroeconomic Stability

A stable macroeconomic environment is crucial for the development of the stock market. Low and predictable rates of inflation are more likely to contribute to stock market development and economic growth. Both domestic and foreign investors will be unwilling to invest in the stock market where there are expectations of high inflation. Garcia and Liu (1999) found that sound macroeconomic environments and sufficiently high income levels, GDP per capita, domestic savings and domestic investment are important determinants of stock market development in emerging markets.

2.5.2 Banking Sector Development

The development of the banking sector is important for stock market development in Ghana and for that matter Africa. At the early stages of its establishment the stock market is a complement rather than substitute for the banking sector. It must be noted that the conduct of macroeconomic policies does not only affect but may also be affected by the condition of financial system. Many East Asian countries are successful examples, support services from the banking system contribute significantly to the development of the stock market. Consequently, liquid inter-bank markets. Largely supported by an efficient banking system, are important for the development of stock market, conversely, a weak banking system can constrain the development of the stock market.

On the empirical front, (Demirguc-Kunt and Levine, 1996) found that most stock market indicators are highly correlated with banking sector development. Countries with well-developed stock markets tend to have well developed financial intermediaries.

2.5.3 Institutional Quality

Institutional quality is important for stock market development because efficient and accountable institutions tend to broaden appeal and confidence in equity investment. Equity investment thus becomes gradually more attractive as political risk is resolved over time. Therefore, the development of good quality institutions can affect the attractiveness of equity investment and lead to stock market development.

(Bekaert, 1995) provides evidence that higher levels of political risk are related higher degrees of market segmentation and consequently low level of stock market development. Erb et al (1996a) show that expected returns are related to the magnitude of political risk. They find that in both developing and developed countries, the lower the level of political risk the lower is required returns. The evidence in literature suggests that political risk is a priced factor for which investors are rewarded and that it strongly affects the local coat of equity which may have important implication for stock market development.

2.5.4 Shareholder Protection

Another key determinant of stock market development is the level of shareholder protection in publicly traded companies as stipulated in securities or company laws (Shleifer and Vishny 1997). Stock market development is more likely in countries with strong shareholder protection because investors do not fear expropriation as much. In addition, ownership in such markets can be relatively dispersed, which provides liquidity to the market, (La Porta et al 1999) provide evidence for the importance of minority rights protection by using (De Santis and Imrohoroglu, 1997) report that emerging financial markets exhibits a conditional probability of large price changes than developed stock markets.

(La Porta et al 1997) find that countries with lower quality of legal rules and law enforcement have smaller and narrower capital markets and that the listed firms on their stock markets are characterized by more concentrated ownership. (Demirguc-Kunt and Maksimovic, 1998) show that firms in countries with high ratings for the effectiveness of their legal systems are able to grow faster by relying more on external finance.

2.6 Advancing Stock Market Development in Ghana and Africa

The results from the previous sections show that African stock markets are small, illiquid with infrastructural bottlenecks and weak regulatory institutions. Despite these problems stock markets in Africa have helped in the financing of the growth of large corporations but there is little evidence of broader economic benefits. How does one make the stock market more beneficial to African countries? A number of propositions have been suggested to help develop stock markets in Africa, some of which is the need to increase automation, demutualization of exchanges, promotion of institutional investors, regulatory and supervisory improvements, involvement of foreign investors and educational programs. Most of these propositions involve substantial benefits as well as cost outlays.

2.6.1 Stock Exchange Automation

Automation is also expected to help reduce the costs and inefficiencies in Ghana stock markets and increase in trading activity and liquidity. Automation helps speed up operations and activities of exchanges and reduces cost associated with manual systems. In addition, automation makes it easier to extend trading days and hours due to less cumbersome procedures. Automated trading also eliminates the need for trade intermediations since investors can log onto systems to monitor markets and also trade on the markets, thus bypassing the use of brokers. Automation of the trading system usually either precedes or is preceded by the adoption of a Central Depository System (CDS). Under the CDS also reduce errors and delays associated with paper-base. Automation is an expensive venture and has huge budgetary implication for African governments. This explains why most African stock markets have found it difficult to fully automate their systems. However, with the use of Electronic Communication Networks (ECNs) and Alternative Trading Systems (ATS) cost of automation is gradually reducing.

2.6.2 Demutualization

Demutualization can be defined as a change in legal status, structure and governance of an exchange from a non-profit, potential interest one to a profit oriented. The process of demutualization involves a change in ownership structure and a change in legal and organization form. Demutualization started gaining popularity in the 1990s, due to a number of factors. These include competition among exchanges, need for increased capital, need for good corporate governance in exchanges and the urge to open up ownership of exchanges to public investors (Pirrong, 2000). So far the only African stock exchanges with automated and Central Depository System are the Algiers Stock Exchange. Bourse Regionale des Valeurs Mobilieeres (BRVM), the Cairo and Alexandria Stock Exchange (CASE), Stock Exchange Mauritius, Namibia Stock exchange (NSX), Nigeria Stock Exchange, Johannesburg Securities Exchanges(JSE), Tunis Stock Exchange, the Lusaka Stock exchange and recently the Ghana Stock Exchange. The process can be defined as a change in legal status of the exchange from a mutual association with one vote per member (and possibly a consensus-based decision making) into a company limited by shares with one vote per share (Akhtar, 2002).

Demutualization is expected to solve mutual structure problems by opening up trading rights, admitting new trading partners, and broadening ownership such that the public can invest in exchanges. The absence of these in mutual exchanges tends to breed poor governance structures. With demutualization, fund holders can directly access such information without the use of brokers. Finally it is also argued that demutualization instils efficiency and better structures in exchange and results in commercial gains for exchanges (Ryden, 1995).

2.6.3 Promote Institutional Investor

The involvement of institutional investors in African exchanges must be pursued vigorously. Institutional investors often are forefront in promoting efficient market practices and financial innovation. They typically favour greater transparency and market integrity in both primary and secondary markets and seek lower transaction cost and encourage efficient trading and settlement facilities. Pension funds, insurance house and other institutional investors can therefore act as a countervailing force to commercial and investment banks as well as other market intermediaries forcing them to be more competitive and efficient. Indeed Africans exchanges and for that matter Ghana Stock Exchange stand to gain from increasing the involvement of institutional investors on stock exchange.

2.6.4 Strengthen Regulation and Supervision

Regulation and supervision of the financial system play a great role in determining both its stability and the extent of services provided. Investors protection helps solve agency problems and information asymmetry arising from inside information.

This helps in making optimal decisions, increasing access to external finance and resulting in productive investment and eventually higher firm growth (La Porta, Lopezde-Silanes and Shleifer, q2003). There is the need for a well structured and clear rule of law within an efficient judicial system which allows for contract repudiation and expropriation risk in this regard.

Enforcement essentially requires compliance and the ability to prosecute. The presence of a security regulator is important in this regard to ensure enforcement. Such enforcement can also be complimented by effective private laws on contracts and dispute resolutions (Lopez-de-Silianes, 2004). The presence of strong corporate governance mechanism also helps boost investor confidence in regulatory issues. Strict ethical and conduct of business rules could be developed for members of the Ghana stock exchanges.

Rules must follow international best practices but at the same time reflect local structures and needs. Emerging African markets should also implement rules that are “necessary” rather than what would be “nice” (Friedman and Grose, 2006). In African through there are laws and rules for regulation and supervision, the real challenges is the shortage of experienced supervisors and the absence of a strong tradition favouring compliance with the rules and discouraging regulatory forbearance (Vittas, 1998).

2.6.5 Attract Capital Flows and Encourage Foreign Participation

Private capital flows; foreign direct investment, remittances and portfolio investment and are importance for stock market development and the capital market as a whole. Even though capital flows to African or Ghana have been increasing recently, they are still at very low levels. Is a particular, portfolio investment account for a minor share of capital flows to Africa with a merger share of 0.15 percent of the total capital flows to Africa in 2003 (excluding South Africa increasing liquidity of JSE).

Sustained economic growth, quality public institutions and infrastructure, trade liberalization and efficient capital markets are important for attracting capital flows (Asiedu, 2006). An enabling business climate with low cost as of doing business, property rights, effective regulations and legal institutions and some capital account liberalization are important. There is the fear that capital account liberalization for these countries could also expose such economics to potential huge capital fights and financial crises. It has been argued that such problems depend on the nature of capital that comes in (Henry, 2000). Increasing African markets and for that matter Ghana Stock Exchange are opening up a foreign participation with little or no ceiling on foreign ownership of shares. A few markets still have some foreign participation restrictions. For instance, foreign ownership of shares cannot exceed 40% in stock markets in Kenya and Zimbabwe and 74% in Ghana.

2.6.6 Strengthen Education

Increasing public knowledge about the functioning of the stock market could promote the development of the stock market in Africa. Educating the public about the role of stock market can help increase the investor based and improve the liquidity of the stock market. There is often very little or no education on the role of stock markets in African economics.

Being new financial systems in most of Sub-Sahara Africa, stock markets would not appeal automatically to economic agents. Education about stock markets must be at the firm and individual level. At the firm level, it is important to ally the fears of firms by educating them strongly and regularly on the benefits of listing. Firms in Ghana have an array reasons why they would not list on stock markets. Apart from the lack of knowledge about how stock market work, there are other reasons such as high listing requirements and fear of losing control over family businesses.

A study on the Ghana Stock Exchange (Yartey, 2005) revealed that 33 percent of firms surveyed were unwilling to list on the stock exchange because of fear of losing control. At the individual level, African markets could tap into potentially large amounts of financial wealth which exist outside of the financial systems, by pursuing vigorous and consistent educational campaigns about stock market at various levels of society. Such educational drives are already in existence in a number of stock markets in Africa.

In South Africa, the JSE or Liberty Life Investment challenge which introduces the youth ton dynamic games in economics and finance and its application to investing and trading on JSE has been running for three decades now. Strengthening education must also involve the Ghana Stock Exchange engaging in on-campus out trench programs in junior and senior high schools. This must involve the stakeholders in the academia paying active role on the need for young children to develop the attitude of savings and should form part of the syllabus at both junior and senior high level on the need to invest. By so doing, the capital market would receive the needed growth through smaller savings at the early stages of children up-bringing and the college life of the individual student.

2.7 Importance of Ghana Stock Exchange

- Providing a ready market: The organization of stock exchange provides a ready market to speculators and investors in industrial enterprises. It thus, enables the public to buy and sell securities already in issue.
- Providing a quoting market price: It makes possible the determination of supply and demand on price. The very sensitive pricing mechanism and the constant quoting of market price allow investors to always be aware of values. This enables the production of various indexes which indicate trends etc.

- Providing facilities for working: It provides opportunities to Jobbers and other members to perform their activities with all their resources in the stock exchange.
- Safeguarding activities for investors: The stock exchange renders safeguarding activities for investors which enables them to make a fair judgment of securities. Therefore directors have to disclose all material facts to their respective shareholders. Thus innocent investors may be safeguard from the clever brokers.
- Operating a compensation fund: It also operate a compensation fund which is always available to investors suffering loss due the speculating dealings in the stock exchange.
- Maintenance of liquidity: The bank and insurance companies purchase large number of securities from the stock exchange. These securities are marketable and can be turned into cash at any time. Therefore banks prefer to keep securities instead of cash in their reserve. This it facilities the banking system to maintain liquidity by procuring the marketable securities.
- Promotion of the habit of saving: Stock exchange provides a place for saving to general public. Thus it creates the habit of thrift and investment among the public.

This habit leads to investment of funds incorporate or government securities. The funds placed at the disposal of companies are used by them for productive purposes. (www.blogspot.com/absarforex).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methods designed and also the techniques that were used in the collecting of data by the researcher in the study. This further talk about how the research was carried out, how research population was identified, how the sample size was obtained and also explains why that population was chosen. This is basically made up of the following; population, sample size and sample techniques, mode of data collection and method of data analysis of the study.

3.1 Research Design

The project assessment of the impact of the Ghana stock exchange to the development of the capital market is a descriptive survey that attempt to ascertain how contribution of Ghana stock exchange develop the capital market. Descriptive survey design is being use, because it involves gathering data that describe events and then organizes, tabulates, depicts and describes the data, this helps bring out relevant information to answer the research question. It is the type that is mainly concerned with describing the nature or condition and the degree of detail of the present situation. This method is used to describe the nature of a situation, as it exists at the time of the study and to explore the causes of particular phenomenon. The aim of descriptive research is to obtain accurate profile of the situation under study.

3.2 Population of the Study

The population of the study is made up of all the thirty five firms listed on the Ghana Stock Exchange.

3.3 Sample Size and Sampling Technique

The study sampled 2 public firms listed on the Ghana Stock Exchange. The two firms sampled are Ghana Oil Company and PZ Cussons and these firms have experienced professionals at the management level who responded to the questionnaires. In all 15 management staff was sampled using the purposive sampling technique since they are the right people to provide the right information for the study.

3.4 Method of Data Collection

In order to obtain accurate and reliable information for this study the researcher used primary and secondary source for data collection. The secondary data was obtained from literature such as text books, newspapers, internet, handouts, financial times, and professionals of some enlisted firms and brokerage firms recognized by the Ghana Stock Exchange. The researcher used documentary sources for collecting certain needed information that cannot be obtained using neither questionnaire nor interview guide. Research instruments were used in data collection of primary data for the study. The research instruments used were interview schedule and questionnaires.

3.5 Method of Data Analysis

For the purpose of analysis, qualitative and quantitative means were used to analyze raw data gathered and converted into reasonable statistical format through the adoption of graph and charts.

CHAPTER FOUR

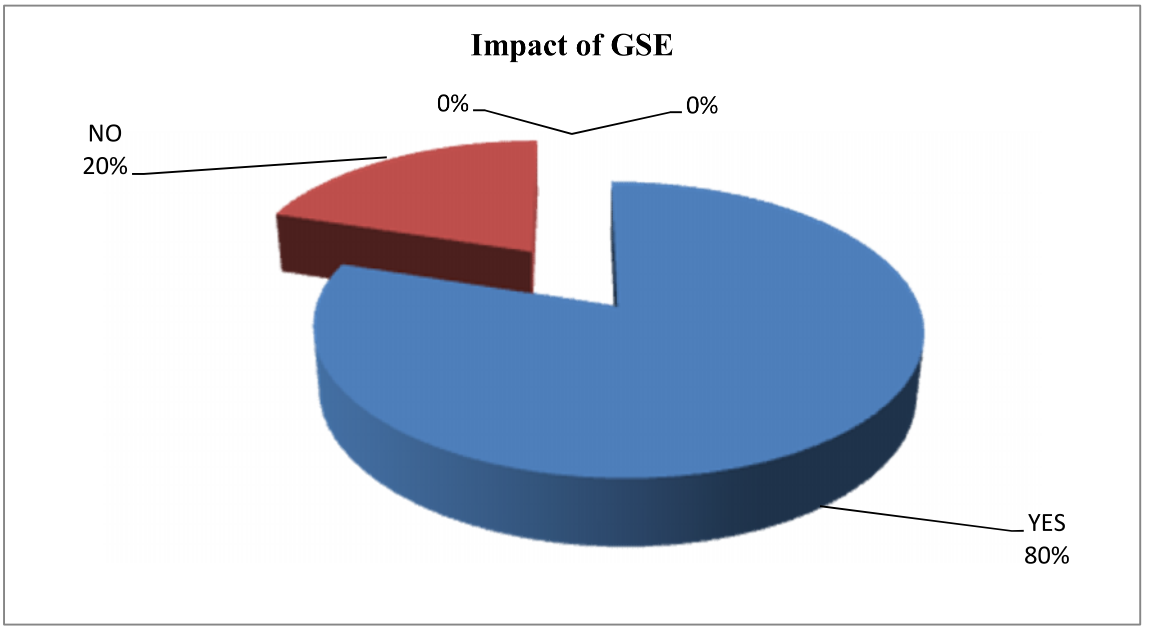
ANALYSIS AND INTERPRETATION OF DATA

4.0 INTRODUCTION

These chapter four attempts to analyze the contribution of the Ghana Stock Exchange to the development of the capital market of Ghana, which has been discussed in chapter two.

4.1 WHAT IS THE IMPACT OF GHANA STOCK EXCHANGE IN THE CAPITAL MARKET OF GHANA?

Figure 4.1 Impact of GSE on the Capital Market of Ghana



Source: Field Survey, 2013

The chart above indicates the number of respondents who admitted to the Ghana Stock Exchange has impacted positively on the stock market of Ghana. In all, thirteen (12) professionals representing eighty (80%) percent out of the total number of fifteen (15) respondents answered yes to question.

Whiles the remaining two (3) representing (20%) percent responded otherwise to the question regarding the impact of GSE on the stock market of Ghana.

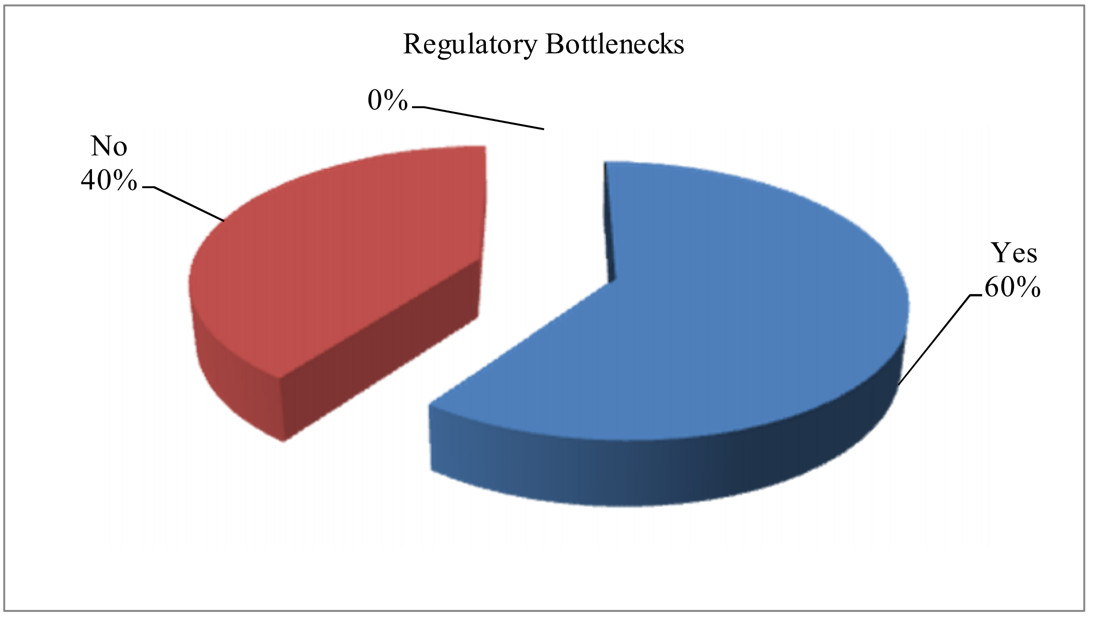
4.2 WHAT ARE THE REGULATORY BOTTLENECKS AND PROCEDURES OF ENLISTING ON THE GHANA STOCK EXCHANGE?

Table 4.1 Regulatory Bottlenecks

Regulatory Bottlenecks	Number of Respondent	Percentages (%)
Yes	9	60
No	6	40
Total	15	100

Sources: Field Survey, 2013

Figure 4.2



Sources: Field Survey, 2013

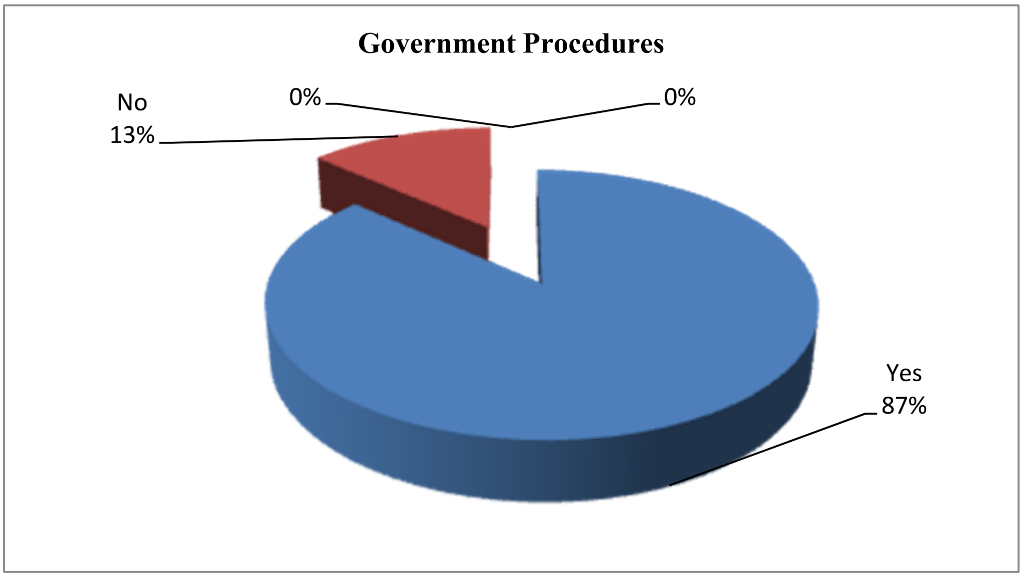
The above analysis indicates that nine (9) out of the total number of respondent said yes to the fact there are regulatory bottlenecks which hinder the independent operations of the exchange. Six (6) professionals representing forty percent (40%) of the total number declined and were of the view there are regulatory bottlenecks as a section of the respondents may view it. However, there are necessary procedures that needed to be followed but not necessarily regulatory bottlenecks.

Table 4.2 Government Procedures

Government Procedure	Number of Respondents	Percentage (%)
Yes	13	87
No	2	13
Total	15	100

Source: Field Survey, 2013

Figure 4.3



Source: Field Survey, 2013

The chart above emphasizes on the government procedures that requires all interested companies to comply before granted license to be listed on the exchange. Out of the fifteen (15) professionals interviewed, thirteen (13) responded that such governance procedures existed eighty-seven (87%) percent, whiles the remaining two (2) responded otherwise thus, (2) responded representing (13%).

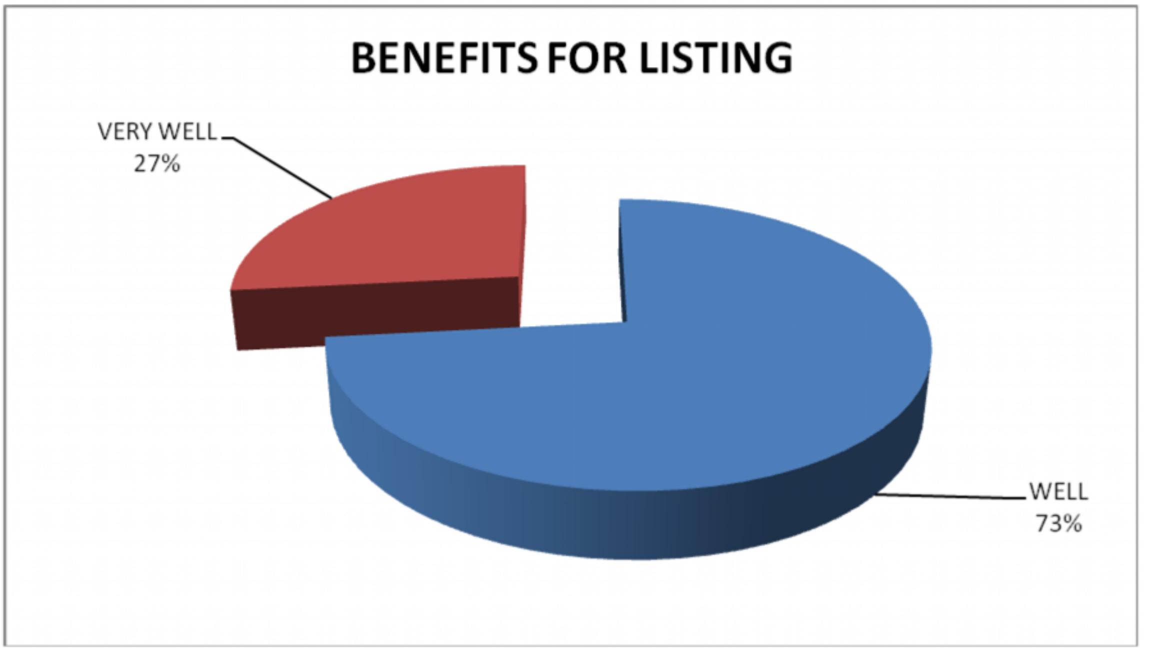
4.3 WHAT ARE THE BENEFITS OF ENLISTING ON THE GHANA STOCK EXCHANGE?

Table 4.3 Benefits for Listing

Benefits for Listings	Number of Respondent	Percentage
Well	11	73
Very Well	4	27
Total	15	100

Source: Field Survey, 2013

Figure 4.4



Source: Field Survey, 2013

The above chart shows the extent of benefits derived from been listed on the Ghana Stock Exchange. There are many benefits that are accrued to public companies whose shares are listed. These include easy access to long-term capital, improvement of the financial position of the company, freedom to diversity investment and realization of investment. However, ten (10)out of the total number of fifteen (15) representing sixty-seven percent (67%) of respondents admitted to the fact that listed companies benefit very well, whiles five, whiles five (5) representing thirty-three (33%) responded they benefit well.

4.4 DISCUSSION OF FINDINGS

The analysis and interpretation of the study has shown a great sense of growth to the capital market. Diagram 4.1 only portrays that only seven percent (7%) of respondents believe that publicity is poor. This is an indicative of the fact that the populates have a great interest in the market. Also the researchers discovered that even those unlisted companies have the will power to be listed when all administrative procedures are met. About sixty seven percent (67%) of the populate hold that view. The effect is that only lucrative companies with better financial and market positions would be enlisted.

Despite these, a high percentage of the populace still hold the view that administrative bottleneck (60%) and government procedures (87%), to an extent, deter potential individuals and companies from getting enlisted. However they believe those stringent procedures help to get the best to be enlisted to contribute to the growth of the capital market in Ghana.

The researchers also found out some other finding in relation to the assessment of the contribution of stock market to the growth of the capital market in Ghana:

- The study shows that Ghana Stock Exchange has caused a positive impact on listed companies and the economy of Ghana. The stock exchange has provided listed companies with easy access to long term capital, assisted in government divestiture programme, caused improvement in their financial position, has created job and wealth and enhanced their status in the community by making them well known.
- Aside these numerous benefits, the stock exchange provide capital gains tax exemption for all listed companies until November 2010 and 8% withholding tax on dividend income. Respondents stated that there is awareness creation by Ghana stock exchange, which is at least announces its stock prices on radio, TV and internet but it is their own refusal to be listed. They never wanted to be listed on the stock exchange

due to the fact that there will be dilution in ownership. These unlisted firms in any way appreciate the fact that listed companies expand their finance base when listed.

- Ghana Stock Exchange (GSE) has Securities Industry law PNDLC 333(1993) which oversees the enlistment of companies on the exchange. The research also shows that the exchange have its numerous challenges such as slow growth of income in Ghana, a constraint on saving and therefore investment, few securities listed, negative influence due to high inflation and high interest rate on government paper-adversely impact stock market growth and inability of many shareholders to render their paper certificate in exchange for automated system to improve liquidity.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 GENERAL SUMMARY

The study was embarked upon to find out the assessment of the contribution of stock market to the growth of the capital market in Ghana. In undertaken the research the researchers used sixty percent (60%) brokerage firms and forty percent (40%) listed companies in the Ghana Stock Exchange (GSE).

Random sampling technique and questionnaire were used for the collection of data for the analysis. The sample size was fifteen (15). The first chapter of the study entails the background study, problem statement, objectives of the study, research questions, and significance of the study, research method and limitation of the study as well as organization of the study. Also the second chapter of the study seeks to review previous related research work on the study.

The third chapter contains the research design and methodology. It explains in full the questionnaires, interviews and processes of the study. The data source and collection instrument, sampling methods and size will all be dealt with in this chapter. Chapter four of the study is about the data analysis and interpretations. That is how the data collected are analyzed, observed and interpreted. Final chapter will also talk about the general summary, conclusion, recommendation and suggestions for further study.

5.1 CONCLUSION

The existence of stock market does not mean that investment research should not be done. Investors periodically must analyse and try to interpret the information available for efficient market hypothesis to hold.

Those stringent government procedures and administrative bottlenecks must also be catered for to suit the current economic situation in order that the stock market contributes to the growth of the Ghana's capital market. It was deduced that the stock market has contributed to the growth of the capital market with this illustration supporting the argument.

5.2 RECOMMENDATIONS

Ghana stock Exchange's vision which is to be relevant effective and efficient in mobilizing and allocating long term capital for Ghana's economic development can be satisfactory achieved when the following are considered:

- There should be an intensive education to inform or reach out to potential companies and individuals to be listed. Also to reiterate the essence of being listed on GSE to existing companies and individual;
- Inter broker problems should be settled within five working days;
- Security courses should be introduced in the second cycle school to orient them for future investment.
- Ghana Stock Exchange should consider merging with other stock exchanges in Africa to create a high volume and large market. This would be efficient in terms of number of investors, pricing and generation of capital financing for companies.

5.3 AREAS FOR FUTURE RESEARCH

Share prices do change due to events like employment, manufacturing, dealings, political event and others. Due to these price changes investors tries move their portfolio in or out of those Stocks. It is therefore recommended that future research should be conducted into factors that influence share price movement and its impact on the capital market.

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APPENDIX 1

QUESTIONNAIRES FOR OFFICIALS OF GHANA STOCK EXCHANGE

This questionnaire is designed to help assess the topic contribution of Ghana Stock Exchange to the development of the capital market.

- Accurate information will be required from you for the sources of the study.
- Please be assured that all your responses will remain confidential and the data gathered will be used for academic purpose as well. Thank you.

INSTRUCTIONS

Please mark [√] where necessary and fill forms as appropriate.

1. What has been the extent of awareness creation by Ghana Stock Exchange?

a) Poor ( )

b) Average ( )

c) Good ( )

d) Very good ( )

e) Excellent ( )

2. Are companies willing to be listed on the Ghana Stock Exchange?

a) Yes ( )

b) No ( )

If yes, please briefly explain in your view.

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If no, please explain briefly in your view.

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3. Do you consider any regulatory bottlenecks in the operation of Ghana Stock Exchange?

   a) Yes ( )
   b) No ( )

If yes, what are they?

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....

4. Are there government procedures for firms that want to be listed on the stock exchange?

   a) Yes ( )
   b) No ( )

If yes, what are they?

....

....

If yes, what extent do you think governance procedure regard stock exchange listing are adhered to.

   a) Not at all ( )
   b) slightly ( )
   c) well ( )
   d) very well ( )

5. To what extent would you say that stock exchange listing has been beneficial to listed firms and capital market growth in Ghana?

   a) Not at all ( )
   b) Slightly ( )
   c) Well ( )
   d) Very well ( )

Explain………………………………………………………………………………………

…………………………………………………………………………..

6. Are there any challenges faced by Ghana Stock Exchange?

a) Yes ( )

b) No ( )

If yes, please describe them in your view.

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7. Apart from listing firms on the stock market, does Ghana Stock Exchange provide other assistance to the listed companies?

a) Yes ( )

b) No ( )

8. What new things do you think when done can accelerate the number of firms listed on the Ghana Stock Exchange?

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9. Can you indicate same benefits the country derive from the operation of the stock exchange?

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