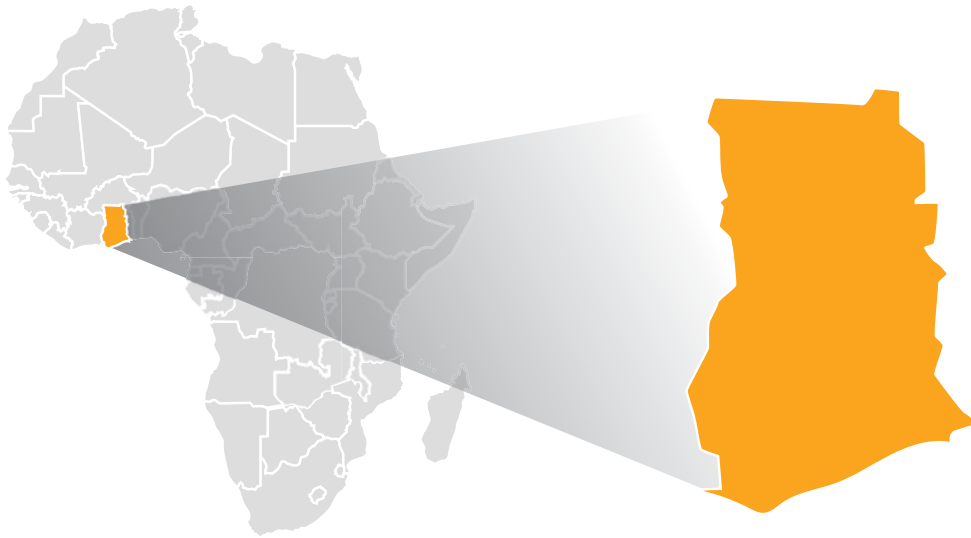


GHANA



\$12.68 Bn
Equity Market
Capitalization

\$7.85 Bn
Debt Market
Capitalization

39
Number of
listed
companies

11
Number of
issuers
(bonds)

8.03%
Domestic
Equity Market
Cap/GDP

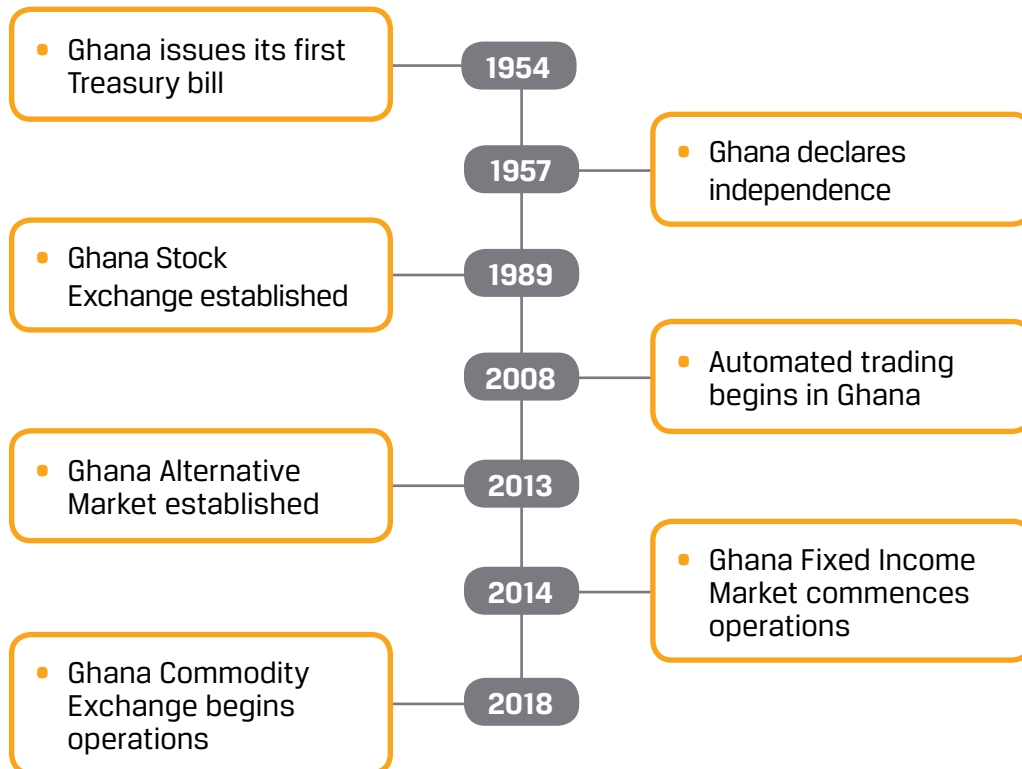
19.35%
Total Equity
Market Cap/
GDP

11.98%
Domestic
Debt Market
Cap/GDP

200,577,882
Equity Market Share Volume Traded

7,855,875,071.16
Debt Market Instrument Volume Traded

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Ivy Hesse, CFA, CIPM

Founder and Principal Consultant, Synercate

The drive to establish a formal exchange in Ghana dates back to the mid-1950s, as evidenced by various government initiatives, such as the issuance of the first Treasury bill, worth GBP500,000, in 1954, the incorporation of the Accra Securities Market Limited in the 1960s, and the enactment of the Stock Exchange Act, 1971 (Act 384), with the intent to establish a formal securities exchange. The ensuing political instability that characterized these periods hampered initial efforts until July 1989, when the Ghana Stock Exchange (GSE) was formally incorporated under the Stock Exchange Act of 1971²⁸ and commenced operations in November 1990.

Trading initially occurred via a call-over system within one equity market segment, with three initial brokers, 11 equity securities, one Government of Ghana (GoG) commemorative bond, and an initial market capitalisation of USD0.66 million in current terms.²⁹ In March 2000, the GSE migrated to the manual continuous auction trading system, where trades were posted and matched on designated physical boards for each security. Nearly 30 years after its inception, the GSE has transitioned to a fully automated auction market consisting of three market segments, 41 listed equities, 76 GoG notes and bonds, corporate notes and bonds issued by 10 institutions, one exchange-traded fund (ETF), 22 brokerage houses, an equity

market capitalisation of USD13.3 billion,³⁰ and issued bonds valued at USD7.6 billion as of December 2018.

Table 1 outlines key initiatives targeted at improving the functions, operations, and relevance of the capital market and related financial subsectors since 2000.

The GSE has earned international recognition—for example, by winning the Africa investor (Ai) “Most Innovative African Stock Exchange” award in 2009 and 2018. It has been a prominent member of the African Securities Exchanges Association (ASEA) and has applied to become an affiliate member of the World Federation of Exchanges. The GSE has been a key driver of the initiative to harmonize regional capital markets and is currently integrated into the West African capital market under the West African Capital Markets Integration (WACMI) framework, granting participating countries varying degrees of access rights to offer and invest in securities across the subregion.

There are four main regulatory institutions responsible for different segments of the financial sector in Ghana—namely, the Bank of Ghana (BOG), the Securities and Exchange Commission (SEC), the National Pensions Regulatory Authority (NPR), and the National Insurance Commission (NIC). The growth of assets under management (AUM) within the pensions industry has been a key driver of

²⁸Now repealed.

²⁹Based on the average beginning and ending rates for 2018.

³⁰Exchange conversions are based on the average of the beginning and ending exchange rates reported in the Bank of Ghana annual reports.

TABLE 1. KEY DEVELOPMENTS AND REFORMS IN THE GHANA CAPITAL MARKET

Period	Reform/Initiative
2004	Establishment of the Bank of Ghana Securities Depository
2006	Formalization of the foreign exchange market and relaxation of foreign exchange restrictions allowing for free remittance of funds by foreign investors
2006	Lifting of the 74% maximum ownership restriction in listed companies by non-resident foreigners
2007	Sanction against the issuance of securities in dematerialized form lifted, with the establishment of the GSE Securities Depository Company Limited (GSD), and the formalization of operations of the Central Securities Depository (CSD) of the central bank (Bank of Ghana)
2008	Commencement of automation of trading and settlement activities on the GSE
2008	Enactment of the National Pensions Act, 2008 (Act 766), establishing <ul style="list-style-type: none"> • a three-tier pensions contributory structure that sought to expand formal participation in the pensions management sector to private trustees, investment managers, and other service providers • the National Pensions Regulatory Authority (NPRO) as the regulator for the pensions industry
2009	Completion of automation of the GSE's trading, clearing, and settlement operations, enabling brokers to execute transactions either at designated terminals on the trading floor of the GSE or remotely from their offices
2011	Extension of the trading period from the initial hours of 09:30–13:00 to 09:30–15:00 (GMT)
2011	Migration from a last trade price to a volume-weighted average price (VWAP) methodology for determining the closing prices for equity securities traded on the GSE
2013	Commencement of harmonization of West African capital markets with the inauguration of the governing council, the West African Capital Market Integration Council (WACMIC), which was to oversee the formulation of protocols and rules for the integration of the key stock markets of Nigeria (Nigeria Stock Exchange), Ghana (GSE), and the Bourse Regionale des Valeurs Mobilières (BRVM) ^a
2013	Launch of the Ghana Alternative Market (GAX) targeting small and medium enterprises (SMEs)
2014	Launch of the West African Capital Markets Integration (WACMI) protocols and rules, enabling licensed market participants of participating countries to formally gain access to markets of interest within the West African subregion

(Continued)

TABLE 1. KEY DEVELOPMENTS AND REFORMS IN THE GHANA CAPITAL MARKET (CONTINUED)

Period	Reform/Initiative
2015	Establishment of the Ghana Fixed Income Market (GFIM) as the formal secondary market segment for fixed-income instruments issued by corporate, government, and government-related institutions
2016	Enactment of the new Securities Industry Act, 2016 (Act 929), which, among other things, allows the issuance of derivative securities
2018	Launch of operations of the Ghana Commodity Exchange (GCX) to provide an efficient platform for the trading of major commodities used within the economy (the commodity currently actively traded is maize)

^aA regional exchange located in Côte d'Ivoire covering Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo.

Sources: NPRA, BOG, and GSE.

activities within Ghana's capital market, particularly the bond market of the GSE (i.e., GFIM). At the end of 2017, total pension industry assets were USD7.11 billion, compared with USD5.35 billion in 2012.

The GSE currently has three market segments:

1. the Main Equity Market, where all equity securities and ETFs are listed
2. the GFIM, where all government and non-government notes and bonds are listed and traded
3. the Ghana Alternative Market (GAX), which is the segment that encourages SME listings

The GSE has seen its equity market capitalisation grow from USD0.66 million³¹ in 1990 to over USD13 billion as of the end of 2018. Despite several initiatives to promote listings and trading activities, the number of listed securities on the Main Equity Market and the GAX

and trading activity measured by volume and values traded have stayed generally stable over the past five years ending 2018.

Annual value traded on the GFIM has almost tripled since it formally commenced operations in 2014, from USD2.8 billion in 2015 to USD8.2 billion as of the end of 2018. These numbers far exceed the equity market trade values of USD71 million–USD143 million over the same period.

The total market size—measured by the market capitalisation for the equity market and outstanding debt value for the debt market—may point to a number of factors, such as (a) the growing preference for debt over equity as a result of the impact of the financial sector reforms and the associated flight to safety from investor uncertainty, away from equities; (b) the impact of delistings of nonperforming companies in recent times; and (c) negative USD returns on equity because of worsening exchange rates.

On the supply side (especially institutional investors), reforms in pensions law, proliferation

³¹Converted at the average beginning and ending rates for 2018.

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of licensed collective investment schemes, the growing middle class and associated incomes, and increasing financial awareness have contributed to the accumulation of funds for investment in the capital market. These funds are managed primarily by licensed investment management firms. **Table 3** summarizes the key market performance indicators for the capital market for the most recent five-year period ending 2018.

As of August 2019, the total value of listed debt on the GFIM was USD14.65 billion (USD13.13 billion for government debt and USD1.52 billion for corporate debt), while the equity market capitalisation stood at USD10.93 billion (Main Equity Market at USD10.92 billion; GAX at USD9.42 million).

The types of instruments currently listed on the Main Equity Market are ordinary equities (34),

TABLE 3. KEY MARKET STATISTICS

	2014	2015	2016	2017	2018
Equity market cap (USD billions)	23.83	16.32	13.17	13.68	13.29
Domestic market cap (USD billions)	5.14	3.20	2.72	3.78	5.52
Debt market value (USD billions)	1.14	1.55	5.65	6.68	7.62
Number of listings (Main and GAX)	38	42	44	43	42
New equity securities listed	1	4	2	2	2
Delistings	0	0	0	1	3
Number of issues (GFIM)	–	170	125	129	129
Value traded (Equity USD millions)	128	71	61	121	143
Turnover (Debt USD millions)	–*	2,860	4,192	7,140	8,232
Equity market return, GSE-CI ^a (%)	5.4	-11.77	-15.33	52.73	-0.29
Avg. daily equity volume traded (millions)	0.83	0.99	1.02	1.30	0.81
Market cap/GDP (%)	41.40	31.66	24.50	22.91	20.34
Pension sector AUM (USD billions)	3.71	3.85	3.92	4.84	–**
Funds under management ^b (USD billions)	3.11	3.91	5.04	7.22	–**

*Secondary trades data not available; GFIM not in existence.

**Not yet available.

^aGSE Composite Index; calculated in GHS terms.

^bFunds managed by licensed investment management firms as reported in the SEC annual reports.

Sources: GSE, NPRA, and SEC.

preference shares (1), depository shares (1), and ETFs (1). At the end of 2018, the GAX had five listed equities with a market capitalisation of USD11.91 million, representing 0.09% of the combined market cap of USD13.29 billion for the Main Equity Market and GAX.

The average number of listings on the Main Equity Market and GAX has remained stable over the past five years, with an average number of 42 listings. Although there have been a few new listings (11) over this period, the impact of delistings (4) has kept the total number generally stable.

The equities listed on the Main Equity Market and GAX represent 11 sectors of the economy. The two dominant sectors in terms of market size have been mining (69%) and finance (21%)—accounting for over 90% of average market cap over the past five years. The dominant sectors in terms of number of listings have been finance (with 12 listings, which are mainly banks and insurance companies) and manufacturing (with 10 listings), and these sectors have constituted 28% and 25%, respectively, of total average listings over the past five years. The finance sector has dominated trading activity, accounting for 53% of average volume traded and 51% of average value traded for the five years ending 2018.

The performance of the equity market is currently measured by the GSE Composite Index (GSE-CI) for the entire market and the GSE-Financial Stocks Index (GSE-FSI) for the financial stocks segment.

The debt instruments listed on the GFIM include government Treasury securities, euro-bonds, and corporate bills, notes, and bonds. The maturities of these instruments, including both local currency and USD-denominated securities, range from 91 or 182 days to one year on the shorter end and from 2 years (notes) to 31 years (bonds) on the longer end.

Secondary market trading in equities is conducted on the Capizar EZ Trading System of the GSE, which is an automated continuous auction system with the capacity to support trading of other securities, such as bonds and derivatives. Trades settle within a T+3 cycle. Secondary market trading on the GFIM is conducted on any of the following three trading platforms: the Capizar EZ Trading System, the CSD Platform, or the Bloomberg E-Bond Platform. The trading time window on the GFIM is 09:30–16:00 (GMT), with a trade settlement cycle of T+2.³² On the GFIM, debt instruments are classified as notes, bills, and bonds based on maturity period as follows:

- bills—less than one year,
- notes—one to two years, and
- bonds—maturities of three years and above.

The closing price for each instrument after each trading day is the last transaction price (yield) for the issue.

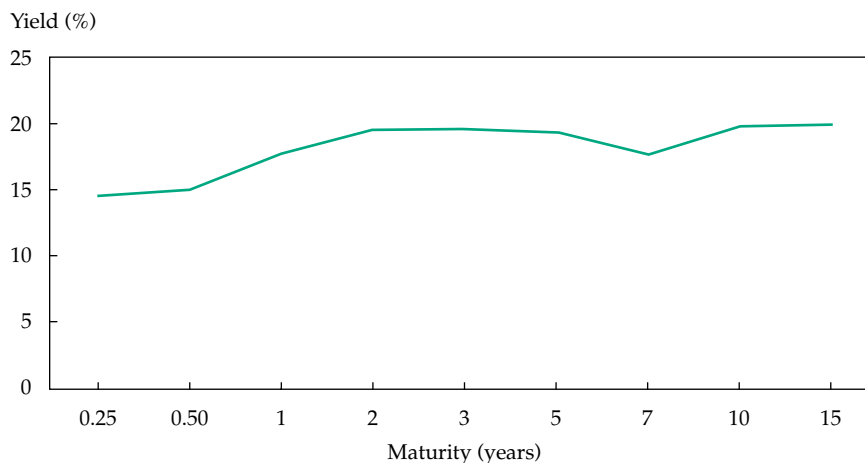
Although government bonds have been in issuance before the establishment of the GSE and were listed on the GSE post-issuance, only primary dealers (predominantly, banks licensed by the Bank of Ghana) participated in primary issuances and a large portion of secondary market dealings in these securities until 2015, when the GFIM segment was formally established under the GSE.

Only primary dealers³³ qualify to participate in primary market issuances of government securities, but both primary dealers and licensed dealing members³⁴ can participate in secondary

³²See the GFIM Manual (<https://gse.com.gh/readfile/?file=https://gse.com.gh/wp-content/uploads/2018/11/GFIM-Manual-August-2016.pdf>).

³³Financial institutions meeting qualification requirements and designated as such by the central bank.

³⁴Brokers licensed by the GSE and the SEC.

FIGURE 1. GOVERNMENT DEBT YIELDS ON THE GSE, AUGUST 2019

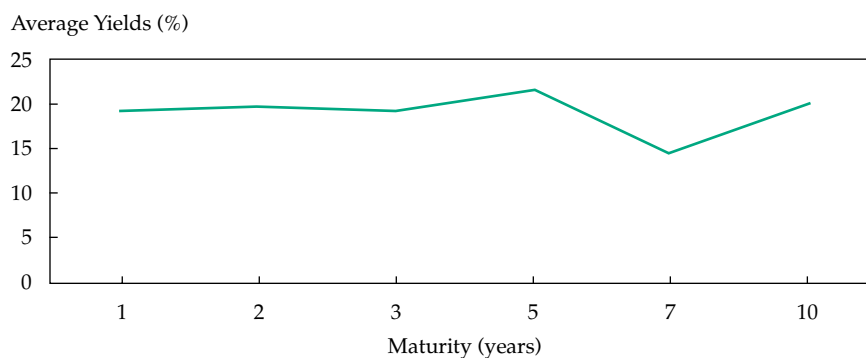
Source: GSE (GFIM) based on interest/coupons for local currency instruments (8 August 2019).

market trading of government bonds after they are listed on the GSE, thanks to the establishment of the GFIM, the merger of the GSE and the central bank's depository systems, and the formalization of primary dealer qualifications. These regulations also allow for non-banks to qualify as primary dealers. **Figure 1** shows the summary yields for government instruments of various maturities.

The corporate bond subsegment of the fixed-income market is relatively young compared with the government subsegment. Its growth has primarily been fuelled by the pensions industry, as pension schemes rapidly accumulated relatively cheaper and potentially longer-term funds and sought viable investment opportunities for these funds. The investment guidelines then in force for pension funds primarily restricted investments to government and listed securities on the GSE. This encouraged the growth of issuances and the listing of corporate notes and bonds by issuers seeking to tap into funds available in the pensions sector, especially from 2014.

As of the end of 2018, the GFIM had corporate notes and bonds of 10 institutions made up of one government related entity, a special purpose vehicle (E.S.L.A PLC) for managing energy sector debt, and nine non-government corporates, with a total shelf value of USD2.57 billion and issued value of USD1.45 billion across 53 tranches. The maturities for these bonds range from 1-year notes to 10-year bonds denominated in local currency and USD with the summary yield curve in **Figure 2**.

The GSE has been committed to ensuring that it strikes a good balance between costs and viability of operations. It also works closely with key policymakers to advocate for necessary incentives to promote the development of the capital market and encourage listings. One key incentive that is still in force is the zero capital gains tax available to investors in securities on the GSE. Additionally, individual investors (both local and foreign) pay zero tax on interest income but must pay an 8% withholding tax on dividends. Non-individual investors, however,

FIGURE 2. AVERAGE CORPORATE BOND YIELDS

Source: GFIM based on average interest/coupon yields at issue (8 August 2019).

pay an 8% withholding tax on both dividends and interest received.

Local investors have access to all securities issued within the market, provided they meet any trade value limits applicable to the issuance. Non-resident foreign investors (NRFs) can also participate in all securities offered on the capital market except government Treasury securities with maturities of less than two years. NRFs can also freely remit all investment proceeds without any exchange restrictions. Investors also have the option to use the services of custodian banks for asset safekeeping purposes. There are currently 16 licensed custodian banks operating within the market.³⁵

To qualify for listing on the GSE, prospective issuers must meet certain criteria required by both the SEC and GSE. Key among these criteria are the minimum issuer and issue size requirements for the Main Equity Market, GAX, and GFIM. Total floatation costs for primary market issuances are currently capped at 5% of the issue value by regulation.

Trading of securities listed on the GSE for both local and foreign investors can be conducted through any of the 22 licensed brokers for all listed securities in the three market segments or through bank and non-bank primary dealers, who can only deal in government securities.

The capital market in Ghana, like most developing markets, is plagued with issues of disclosure challenges, inadequate macroeconomic incentives, a dearth of listings, inadequate financial market knowledge and literacy, small size of issues and issuers, low trade volumes, market volatility, pricing inefficiency, and illiquidity. These challenges have hampered the growth of listings on the exchange, particularly in the equity market segment, and the interest of investors in the market.

Another key challenge is the lack of products and product innovation, with the market generally stuck at the level of the traditional basic instruments of ordinary equity and debt. The amended securities industry law that now makes provisions to allow for non-traditional asset classes and strategies provides the necessary framework to resolve this challenge.

³⁵See <https://sec.gov.gh/licensees/>.

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Key areas where innovative solutions are required are

- product development, to expand offerings to include products such as REITS and ETFs;
- development of the corporate bond market as the preferred source of funding for corporates as well as government entities and agencies, such as districts and municipal authorities;
- development of optimal policies and incentives to fuel the increasing use of capital market channels by issuers and to positively transform the savings and investment habits of investors as they are the source of investment funds for the capital market;
- increased activity and availability of private equity funds as a key source of alternative funding, especially for early-stage companies in preparation for their participation in the broader public capital markets, as well as other investment vehicles;
- increased use of financial technologies (fintech) to deepen financial inclusion and reach of financial services and products; and
- widening of the reach of financial literacy to create awareness about the purpose and benefits of the capital market for issuers and

the benefits of saving and investing on the part of investors.

A crucial development that will be a catalyst to help transform the capital market will be the growing pensions industry and middle-class incomes and the asset muscle these are rapidly building.

One key way that the GSE is looking to challenge the status quo in resolving these challenges is to leverage technology to (1) enable more prospective investors to gain access to information, (2) improve financial literacy, and (3) broaden inclusion in primary and secondary market activities within Ghana's capital market.

All these opportunities can only be attracted and implemented sustainably in a stable macro-economic environment, with well-functioning regulatory institutions that prioritize ethical behaviour and compliance by all market participants and protect the interests of investors. The foundations for such an enabling environment are also being laid with the ongoing financial sector reforms that the relevant financial sector regulators have been rolling out in recent times. The opportunities lie in the ability of market participants to find innovative ways to position the capital market in Ghana as the preferred destination and source of capital within the subregion.