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The Effects of Financial Sector Recapitalization Policy on the Performance of Banks in Ghana: A Comparative Study of Ghana Commercial Bank and Ecobank Ghana

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Abstract
The Bank of Ghana in 2008 firmed up its policy to raise the minimum capital of banks in the country. This study examined the relevance of recapitalization in the banking industry. Specifically, the study investigates the basis for banks capital regulation in Ghana, assessed the impact of recapitalization on the performance of banks and identified challenges posed by the exercise to banks in Ghana. Secondary data were extracted from the banks and analyzed using ratio to measure the banks performance. The first phase, 2009 recapitalization is adopted as the base year, testing the performance of banks three years before the 2009 recapitalization exercise and a year after the 2009 recapitalization exercise to see the significance of the recapitalization. The study found that it is not all the time that recapitalization transforms into good performance of the bank and it is not only capital that makes for good performance of banks. The study posits that bank recapitalization exercise has significant relationship on the pre and post recapitalization profitability indices of the selected banks. The study recommends that there should be a critical look at the mode by which banks raise funds and that banks should be train on post recapitalization issues.
Keywords; Recapitalisation, Banking Sector, Ghana Commercial Bank, Ecobank

1.1 INTRODUCTION

The banking sector in any economy serves as a catalyst for growth and development. Banks are able to perform this role through their crucial functions of financial intermediation, provision of efficient payment system and facilitating the implementation of monetary policies. It is not surprising therefore, that governments the world over attempt to evolve an efficient banking system, not only for the promotion of efficient intermediation, but also for the protection of depositors, encouragement of efficient competition, maintenance of public confidence in the system, stability of the system and protection against systemic risk and collapse.

Banking business is undoubtedly one of the most regulated industries in the world, and the rules on bank capital are one of the most prominent aspects of such regulation. This prominence results from the central role that banks play in financial intermediation, the importance of bank capital for bank soundness and the efforts of the international community to adopt common bank capital standards.

Regulation and supervision remain an integral part of the mechanism for ensuring safe and sound banking practice. Capital adequacy has been the focus of many studies and regulators as it is considered to be one of the main drivers of any financial institution's profitability (Berger, 1995; White and Morrison, 2001; Navapan and Tripe, 2003). Banks are constantly exposed to financial risks and can only adequately absorb the shocks of bad assets if they are adequately capitalized. Capital (equity and long-term debt) represents a source of funds to the bank along with deposits and borrowings. Pringle (1971) observed that an undercapitalized bank will find itself subjected to high levels of short-term borrowing at potentially high excess costs during periods of tight money.

In anticipation of the expected economic growth mainly on the account of oil production, the banking industry of Ghana repositioned itself to contribute to this growth and to cope with the related risks. The repositioning was largely driven by the key regulator and within. In 2008 the Bank of Ghana firmed up its policy to raise the minimum capital of banks from GH¢7million to GH¢60 million after due consultation with the banking industry. All foreign owned banks were required to attain the new level by December 2009, while Ghanaian owned banks had up to December 2012 to attain the same level of capital. However, the Ghanaian owned banks were required to reach GH¢25 million Ghana cedis by end of 2009.

From the foregoing that the study assessed the relevance of recapitalization in the banking industry of Ghana to appraise the exercise against the time deadlines set by the Central Bank using two listed banks – Ghana Commercial Bank Limited and the Ecobank Ghana Limited.

1.1.1 Statement of the Problem

The resolve of the Central Bank of Ghana to place the banking system in a regional and international context and promote soundness, stability and enhanced efficiency of the system was the major reason behind the increased minimum base for all banks. Regulation, undoubtedly, is needed to bring sanity into the banking sector as well as putting it in an internationally competitive status. The recapitalization policy as a form of reform of the banking sector aims among others at the development of more resilient, competitive and dynamic banking system that supports and contributes positively to the growth of the economy with a core of strong and forward looking banking institutions that are technology – driven and ready to face the challenge of liberalization and globalization.

In the light of the above, this study investigates the impact of capital regulation on the banking industry performance. The study attempts to clarify the arguments from the divergent views on the effectiveness of recapitalization and determine the pre and post recapitalization performance of banks as well as the direction, extent and magnitude of the impact of recapitalization on the overall economic performance in Ghana. The ultimate objective of the study was to investigate the relevance of recapitalization in the banking industry of Ghana.

Specifically, the researcher attempted to:

- Describe the most recent financial sector policies in Ghana;
- Assess the impact of the recent recapitalization (increased capital requirement) on the performance of banks; and
- Find out the consequences of recapitalization on the banking system in the country.

1.1.2 Research Questions

To achieve the ultimate objective of the study, the following questions were asked:

- How relevant is recapitalization in the banking industry of Ghana/
- What are the most recent financial sector policies in Ghana?
- How does capital regulation affect the performance of banks?
- What are the consequences of recapitalization on the banking system in Ghana?

1.1.3 Justification of the Study

Given the pivotal role of banking in an economy, the role of sector policies in the industry is particularly important. Evidence of a relationship between sector reforms and profitability and efficiency in the Ghanaian banking industry will direct policy makers at enhancing banking policies to increase improved efficiency in the industry. This study therefore will be a pioneering work on the relevance of recapitalization of banks on competition, growth and performance in the banking industry in Ghana.

The study will add to the body of knowledge in the areas of theory and practice. It will bring to light how recapitalization will impact on investors. The outcome will highlight the theoretical relationship between recapitalization and performance of banks. How recapitalization impacts on consolidation through mergers and acquisitions as well as enhanced capital market will also become clear. In practice, the outcome of the study will point out policy-relevant issues that may require the attention of management practitioners; whether banks should raise more funds on the capital market or engage in mergers and acquisitions. It will also inform regulators particularly the Central Bank on the consequences of their regulations on competition, growth and performance of banks. Players in the industry will also become aware of the need to strategise in response to new financial regulations. Finally, the research will serve as a source of reference for future researchers who may want to conduct studies in related areas. It will serve as basis and a motivation for the researcher to also engage in other works in the area.

1.1.4 Scope and Limitation

The study has been carried on two selected banks listed on the Ghana Stock Exchange. Currently, there are 30 banks in Ghana. The study focuses on only 2 banks and, thus, the outcome of the study will be limited to those two banks. It is thus, limited to the extent of generalization to be placed.

Again, the study concentrates on the first phase of the Bank of Ghana recapitalization policy announced in 2008 requiring local banks and foreign banks to respectively meet specified amounts of capital by end of 2009. Thus, the findings of the study are limited since the full effect of the entire exercise cannot be appraised.

1.2 LITERATURE REVIEW

1.2.1The Banking System in Ghana

Ghana's financial sector after post-independence was characterized by extensive government intervention. The banks that were founded between the early 1950s and the late 1980s were majority- or wholly- owned by the public sector, while the government also acquired minority shares in the two already-established foreign banks in the mid-1970s (Brownbridge and Gockel, 1996).

By the late 1980s, the banks had suffered substantial losses from a number of bad loans in their portfolios. In addition, cedi depreciation had raised the banks' external liabilities. In order to strengthen the banking sector, the government in 1988 initiated comprehensive reforms. In particular, the amended banking law of August 1989 required banks to maintain a minimum capital base equivalent to 6 percent of net assets adjusted for risk and to establish uniform accounting and auditing standards. The law also introduced limits on risk exposure to single borrowers and sectors. These measures strengthened central bank supervision, improved the regulatory framework, and gradually improved resource mobilization and credit allocation.

Other efforts were made to ease the accumulated burden of bad loans on the banks in the late 1980s. In 1989 the Bank of Ghana issued temporary promissory notes to replace non-performing loans and other government-guaranteed obligations to state-owned enterprises as of the end of 1988 and on private-sector loans in 1989. The latter were then replaced by interest-bearing bonds from the Bank of Ghana or were offset against debts to the bank. Effectively, the government stepped in and repaid the loans. By late 1989, ¢62 billion worth of non-performing assets had been replaced by central bank bonds totalling ¢47 billion.

In the early 1990s, the banking system included the central bank (the Bank of Ghana), three large commercial banks (Ghana Commercial Bank, Barclays Bank of Ghana, and Standard Chartered Bank of Ghana), and seven secondary banks. Three merchant banks specialized in corporate finance, advisory services, and money and capital market activities: Merchant Bank, Ecobank Ghana, and Continental Acceptances; the latter two were both established in 1990. These and the commercial banks placed short-term deposits with two discount houses set up to enhance the development of Ghana's domestic money market: Consolidated Discount House and Securities Discount House, established in November 1987 and June 1991, respectively. At the bottom of the tier were 100 rural banks, which accounted for only 5 percent of the banking system's total assets.

By the end of 1990, banks were able to meet the new capital adequacy requirements. In addition, the government announced the establishment of the First Finance Company in 1991 to help distressed but potentially viable companies to recapitalize. The company was established as part of the Financial Sector Adjustment Program in response to requests for easier access to credit for companies hit by the Economic Recovery Program policies. The company was a joint venture between the Bank of Ghana and the Social Security and National Insurance Trust.

Despite offering some of the highest lending rates in West Africa, Ghana's banks enjoyed increased business in the early 1990s because of high deposit rates. The Bank of Ghana raised its rediscount rate in stages to around 35 percent by mid-1991, driving money market and commercial bank interest rates well above the rate of inflation, thus making real interest rates substantially positive. As inflation decelerated over the year, the rediscount rate was lowered in stages to 20 percent, bringing lending rates down accordingly.

The Ghana Stock Exchange began operations in November 1990, with twelve companies considered to be the best performers in the country. Although there were stringent minimum investment criteria for registration on the exchange, the government hoped that share ownership would encourage the formation of new companies and would increase savings and investment. After only one month in operation, however, the exchange lost a major French affiliate, which reduced the starting market capitalization to about US$92.5 million.

By the end of 1990, the aggregate effect of price and volume movements had resulted in a further 10.8 percent decrease in market capitalization. Trading steadily increased, however, and by mid-July 1992, 2.8 million shares were being traded with a value of ¢233 million, up from 1.7 million shares with a value of ¢145 million in November 1991. The market continued to be small, listing only thirteen companies, more than half in retailing and brewing. In June 1993, Accra removed exchange control restrictions and gave permission to non-resident Ghanaians and foreigners to invest on the exchange without prior approval from the Bank of Ghana. In April 1994, the exchange received a considerable boost after the government sold part of its holdings in Ashanti Goldfields Corporation.

The 1970 Banking Act provided the regulatory framework for the banking industry. This imposed minimum paid up capital requirements for foreign and locally owned banks of GHC2 million and GHC0.5 million respectively (the latter was subsequently raised to GHC0.75 million). The minimum capital requirements were worth very little by the early 1980s because of inflation. At the end of 1983, the minimum paid up capital for a local bank was equivalent to only $16,000. Banks were also required to maintain capital and reserves of at least 5% of their total deposits (rather than risk assets which would be more relevant as an insurance against insolvency).

The capital adequacy requirements were in any case largely meaningless because of the absence of clear accounting rules regarding the recognition of loan losses, provisioning for non-performing assets and the accrual of unpaid interest. The true state of banks' balance sheets, including the erosion of their capital as a result of loan losses, could therefore be concealed. Although the Banking Act did provide some rules to constrain imprudent behaviour by banks, penalties for infractions were minimal. There were also important regulatory omissions, such as limits on single borrower loan exposures (World Bank, 1994).

The Bank of Ghana (BoG) Act 2002 (Act 612) has been replaced with the Banking Act 2004 (Act 673) to strengthen the regulatory and supervisory functions of BoG. In February 2003, BoG formally introduced the Universal Banking Business Licence (UBBL), which is expected to bring more competition within the industry. To operate under the UBBL, existing banks must have a minimum net worth of ¢70billion (excluding statutory reserves), and new banks should have a paid-up capital of ¢70billion. Banks are required to hold 9% of the cedi and forex deposit base with BOG on daily basis as primary reserves and 35% of their deposit base in cedi denominated assets as secondary reserves. With the passage of the Banking Act 2004, Ghana moved to a universal banking system with higher and uniform minimum capital requirement for all banks. The hitherto compartmentalized system of banking, comprising commercial, development and merchant banks was eliminated.

1.2.2 Recent Recapitalization Policy of the Bank of Ghana

In 2008, the Bank of Ghana through a consultative process revised minimum capital requirements for all banks, with a phased implementation (at the request of the indigenous banks), for foreign and domestically controlled banks between 2009 and 2012. The first phase was successfully completed in December 2009 as all eligible foreign controlled banks re-capitalized to GH¢60 million. The second phase, which requires the domestically-controlled banks and two foreign banks (licensed in 2008) to re-capitalize to GH¢25 million was also completed at the end of 2010. The final phase of capitalization also concluded in December 31, 2012.

The Ghana Banking Survey (2011) reports that the industry's liquidity improved as the first phase of the mandatory capital injection was attained by 25 of the 26 banks operating in the country. At the end of 2010, one foreign bank and two local banks were yet to meet the minimum capital requirement of GH¢60 million andGH¢25 million respectively. The challenge for the local banks now is to meet the GH¢60 million requirement as at 31 December 2012. The industry's operating assets more than doubled between 2007 and 2010 with UT Bank, Baroda and BSIC and ABG experiencing the most significant growth.

1.2.3 Capital Base and Recapitalization

Capitalization is an important component of reforms in the banking industry; owing to the fact that a bank with a strong capital base has the ability to absorb losses arising from non-performing liabilities. Attaining capitalization requirement is achieved through recapitalization, convergence as well as the capital market. Thus, banking reforms are primarily driven by the need to achieve the objectives of recapitalization, competition and convergence (Deccan Herald, 2004).

Recapitalization is a process in which the amount of debt and assets of a particular entity are rearranged in order to meet a financial goal. It refers to any major change in a corporation's paid in capital, resulting from issuance of new shares of stock, reorganization in bankruptcy, or exchange of common stock shares for bonds and notes, as in a leveraged buyout. In banking, it is has been often defined as any restructuring of a troubled bank assisted by a deposit insurance fund, as in a bailout of a failing bank, where the insurance fund pays the acquiring bank the difference between the book value of a troubled bank's assets and the estimated market value. While the idea of recapitalization is normally associated with businesses, the same general concept can be applied to non-profit organizations, financial institutions such as banks or mortgage companies, and even to individuals.

Banks and other types of financial institutions may utilize the process of recapitalization. A bank recapitalization may occur when the entity acquires or merges with another similar entity. The collective resources of the new entity, as well as the collective liabilities, are reorganized in order to place the new bank in the best financial situation possible. The recapitalization of banks can also take place in an effort to resist a takeover attempt, or to avoid a potential failure or severe cutback in operations.

Adegbaju and Olokoyo (2008) stated that Recapitalization is good for an economy but warned that the way banks raise their funds to meet the recapitalization funds should be carefully looked into so that they do not make their shareholders worse off than they were before the recapitalization. They also stressed good corporate governance as critical to the success of banks. The authors views the government, and for that matter, the central bank as responsible for ensuring effective intermediation drive to that will bring small savers to the purview of the government.

Bakare, A.S. (2011) who conducted a study on the capitalisation of banks in Nigeria posits that Bank capitalization has a positive relationship with output growth in Nigeria. The impact is, however, of a low magnitude. Bank capitalization accounted for 5% of the total variation in the output growth, among other variables in the model. He also contended that Bank asset is positively signed and statistically significant; it is seen as contributing to national output than other variables. 1% rise in bank asset will cause as much as 10% growth in the gross domestic output and that the implementation of the recapitalization policy has cause an unprecedented process of revival and resuscitation of the Nigerian banking sector shrinking the number of commercial banks from 89 to 25 banks. The study concluded that bank recapitalization is good for Nigerian banking sector. What remains however, is how the country should maintain and review the capitalization upward from time to time in order to sustain the tempo of the revival and stability in the banking sector. In other words, the banking sector together with its complementary institutions should be strengthened and bank failures should be adequately tackled. Bakare concluded that the monetary authority has a lot of roles to play in order to maximize the benefits of recapitalization.

1.3 METHODOLOGY

1.3.1 Data Collection and methods

In formulating answers to the research questions, the paper used the case study and a descriptive research design approach. According to Ary, Jacobs and Razavieh (1990), descriptive research studies are designed to obtain information, which concerns the current status of phenomenon. In this case study, a comparison was made between the Ghana Commercial Bank Limited and Ecobank Ghana Limited. The study explores how recapitalization in the banking sector of Ghana has affected players in the industry by employing statistics extracted from the two banks.

The study largely employed secondary data extracted from the audited accounts/annual reports of the Ghana Commercial Bank Limited and Ecobank Ghana Limited as well as their statutory returns submitted to the Bank of Ghana. The data obtained were analyzed using ratio analysis to measure bank performance. The first phase, 2009 recapitalization is adopted as the base year, analyzing the performance of banks three years before the 2009 recapitalization exercise and a year after the 2009 recapitalization exercise to see the significance of the 2009 recapitalization exercise.

1.3.2 Description of Ratios

In an attempt to test the significance of the 2009 recapitalization on bank performance, this study adopts a simple ratio analysis, using specifically profitability ratios to evaluate the performance of banks, three years before the 2009 recapitalization exercise comparing it with the performance of banks two years after the recapitalization exercise. A test of equality of mean is also carried out using the t-test to see if there is any significant difference in the mean of the pre and post ratios used. The ratios used are as described below.

1.3.3 Net Interest Margin (NIM)

This is the difference between interest income and interest expense as a percentage of total assets. It is calculated as interest income from loans and security investment less interest expense on deposit and other debt issues divided by total asset. This ratio measures how large a spread between interest revenues and interest costs the banks management have been able to achieve by close control over earning assets and the pursuit of the cheapest sources of fund.

1.3.4. Yield on Earning Assets (YEA)

This represents the percentage of return that an institution is receiving on its earning assets. Essentially, the gross yield on earning asset ratio is really just the rate paid on funds (RPF) plus the net interest margin. Earning assets include all assets that generate explicit interest income or lease receipts. It is typically measured by subtracting all non-earning assets, such as cash and due from banks, premises, equipment, and other assets from total assets.
YEA = Total Interest Income / Total Earning Assets. Whereas, Earning Assets is calculated as Earning Assets = Total Assets - Non Earning Assets.

1.3.5 Earnings per Share (EPS)

EPS is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio. EPS is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. EPS is calculated as:

$$= \frac{\text{Net Income} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

Diluted EPS expands on basic EPS by including the shares of convertibles or warrants outstanding in the outstanding shares number.

1.3.6 Return on Equity (ROE)

This is measured as net income after taxes divided by total equity capital. It measures the rate of return to the shareholder. This ratio indicates how profitable a company is by comparing its net income to its average shareholders' equity. The ROE measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.

1.3.7 Return on Asset (ROA)

A basic measure of bank profitability that corrects for the size of the bank is the return on assets (*ROA*), which divides the net income of the bank by the amount of its assets. ROA is a useful measure of how well a bank's management is doing on the job because it indicates how well a bank's assets are being used to generate profits. This is defined as net income after taxes divided by total assets.

1.4 RESULTS AND DISCUSSION

The tables (1 and 2) clearly highlights the pre and post situation for the various performance ratios of the two banks, Ghana Commercial Bank Limited and Ecobank Ghana Limited following five years before and a year after the first phase of Bank of Ghana's recapitalization exercise.

Table 1: Performance Ratios for Ghana Commercial Bank Limited

Year	Net Interest Margin	Yield On Earning Assets	EPS	Return On Equity	Return On Assets
	%	%	%	%	%
2005	11.9	14.3	7.8	17.8	2.2
2006	11.2	13.1	15.8	28.3	3.3
2007	7.8	9.7	12.4	18.6	2.8
2008	8.0	11.0	14.2	18.1	2.3
2009	6.9	13.8	7.1	9.3	1.0
2010	13.5	18.3	21.2	22.4	2.7
Average – PRE	**9.2**	**12.4**	**11.5**	**18.4**	**2.3**
Average – POST	**13.5**	**18.3**	**21.2**	**22.4**	**2.7**
DIFFERENCE	**4.3**	**5.9**	**9.7**	**4.0**	**0.4**

Source: Computed from Bank's Annual Reports

Table 2: Performance Ratios for ECOBANK Ghana Limited

Year	Net Interest Margin	Yield On Earning Assets	EPS	Return On Equity	Return On Assets
	%	%	%	%	%
2005	7.8	10.9	7.8	46.0	4.3
2006	3.8	5.3	4.8	19.7	2.1
2007	3.5	5.0	5.6	17.5	1.7
2008	5.0	7.9	21.0	45.0	3.7
2009	5.9	9.5	26.0	37.0	4.7
2010	7.2	9.3	26.0	28.0	4.1
Average – PRE	**5.2**	**7.7**	**13.0**	**33.0**	**3.3**
Average – POST	**7.2**	**9.3**	**26.0**	**28.0**	**4.1**
DIFFERENCE	**2.0**	**1.6**	**13.0**	**-5.0**	**0.8**

Source: Computed from Bank's Annual Reports

Net Interest Margin (NIM) – There was a sharp increase in the NIM for post recapitalization result for Ghana Commercial Bank. In 2010 immediately after the recapitalization, the NIM rose from 6.9 to 13.5, almost a double marginal increase. For Ecobank Ghana Limited, NIM rose from 5.9 in 2009 to 7.2 in 2010. A higher NIM relative to the industry average implies how efficient the management has been able to keep the growth of interest income ahead of interest expenses. The results obtained indicate that the bank management of the two banks have been efficient immediately after recapitalization. However, that is just a year after the exercise and so caution must be taken in concluding whether the recapitalization fully resulted in such efficiency, especially, when in both cases there have been inconsistent NIM results over the years before the exercise.

Yield on Earning Assets (YEA) – The YEA rose gradually after the first phase of the recapitalization in 2009 in both cases with GCB recording quite a sharp rise than Ecobank. In 2009, GCB's YEA rose quite sharply from 13.8 to 18.3 in 2010. This shows that the banks earned more income on earning assets immediately after the recapitalization than before the recapitalization. This increase had never been recorded in the history of the bank before recapitalization. This implies that recapitalization results in more yield on earning assets, but it is too early to judge whether the yield resulting from the exercise can be managed well.

However, though on average, Ecobank recorded a gradual rise in YEA, the year change after the 2009 recapitalization was negative. In 2009, the YEA was 9.5 and declined to 9.3 in 2010 immediately after the recapitalization. This indicates that from the perspective of Ecobank, a foreign bank, the first phase of the recapitalization in 2009, which required foreign banks to quickly meet the capital requirement, did not encourage earning of more income. The banks probably might have put in more effort in attaining the requirement than earning more interest income.

Earnings per share (EPS) – The EPS for both banks rose sharply after the first phase of the recapitalization in 2009. Averagely, the post-recapitalization EPS exceeded the pre-recapitalization EPS almost twice the number both cases. The EPS of GCB tripled from 7.1 in 2009 to 21.1 in 2010 whereas Ecobank did not report any change in EPS from 2009 to 2010. This is in consonance with the slight income earned as shown earlier by the YEA reported.

GCB's tripled EPS from 2009 to 2010 indicates that the recapitalization resulted in a drastic increase in the return on common stock, and thus, ordinary shareholders become better off after the recapitalization than before the recapitalization. It also indicates that the bank has become more profitable after the recapitalization than before the recapitalization. Again, it reflects the sharp increase in the YEA recorded. Unlike Ecobank, the GCB as a local bank had to meet a lower capital requirement during the first phase. It is noteworthy that, the EPS should be observed to see how it trends after the second phase where GCB would have satisfied a higher capital requirement. Hence, caution must be taking in concluding that the recapitalization exercise has resulted in a higher profitability for the bank than as pertains to Ecobank.

The Return on Equity (ROE) – The ROE which measures the rate of return to shareholders, was very encouraging after the recapitalization for GCB but very low for Ecobank. This shows that the shareholders of GCB receive very high returns in terms of dividend after the first phase of the recapitalization, whiles shareholders of Ecobank receive low returns in terms of dividend after the recapitalization.

GCB's ROE sharply rose from 9.3 in 2009 to 22.4 in 2010. Before this rise, ROE for the bank continuously declined from 28.3 in 2006 to 18.6 in 2007 to 18.1 in 2008. But after the first phase of the recapitalization, GCB's ROE sharply rose in line with similar rise in NIM. This indicates that the profit after tax improved substantially to compensate the shareholder who contribute additional fund to finance the recapitalization. However, Ecobank's ROE declined from 37 in 2009 to 28 in 2010. This is not surprising as the bank raised their fund through equity share which now increased the equity capital and the profit after tax has not improved substantially to compensate the shareholder who add additional fund to finance the bank recapitalization.

The Return on Assets (ROA) – The average ROA rose for both GCB and Ecobank; however, GCB's ROA increased from 1.0 in 2009 to 2.7 in 2010 but fell for Ecobank from 4.7 in 2009 to 4.1 in 2010 after the recapitalization. This shows that the management of GCB has been able to convert the bank's assets into net earnings after the first phase of the recapitalization. Table 3: highlights the performance ratios of the two banks before and after the first phase of the recapitalization.

A critical look at the performance ratios for both banks before and after the first phase of the recapitalization shows that the recapitalization has resulted in improved bank performance. Thus, the exercise has resulted in enhanced profitability and efficiency.

1.5 FINDINGS

In 2008, the Bank of Ghana through a consultative process revised minimum capital requirements for all banks, with a phased implementation (at the request of the indigenous banks), for foreign and domestically controlled banks between 2009 and 2012. The first phase was successfully completed in December 2009 as all eligible foreign controlled banks re-capitalized to GH¢60 million. The second phase, which requires the domestically-controlled banks and two foreign banks (licensed in 2008) to re-capitalize to GH¢25 million was also completed at the end of 2010 and the final phase of capitalization also concluded by December 31, 2012.

The Ghana Banking Survey (2011) report that the industry's liquidity improved as the first phase of the mandatory capital injection was attained by 25 of the 26 banks operating in the country. At the end of 2010, one foreign bank and two local banks were yet to meet the minimum capital requirement of GH¢60 million andGH¢25 million respectively. The challenge for the local banks now is to meet the GH¢60 million requirement as at 31 December, 2012. The industry's operating assets more than doubled between 2007 and 2010 with UT Bank, Baroda and BSIC and ABG experiencing the most significant growth. Developments in the banking system as of January 2008 showed a continuous surge in asset growth resulting mainly from credit expansion. Banks' deposits and borrowings were used to fund the growth in assets. The period between January 2007 and January 2008 witnessed some changes in the structure of the banking sector. The level of concentration in the industry remained low with the market share of the 5 top banks (in terms of assets) also declining over the period (Bank of Ghana, 2010). The ratios of assets to GDP, loans to GDP and deposits to GDP rose significantly, suggesting increased financial deepening.

Generally, the industry recorded improved profitability and asset quality and increased operational efficiency. All the banks maintained a Capital Adequacy Ratio (CAR) above the statutory required minimum of 10.0 percent. With respect to the performance measures used to assess the two selected banks, the following findings were made:

Net Interest Margin (NIM) – There was a sharp increase in the NIM for post recapitalization result for Ghana Commercial Bank. For Ecobank Ghana Limited, NIM rose from 5.9 in 2009 to 7.2 in 2010. A higher NIM relative to the industry average implies how efficient the management has been able to keep the growth of interest income ahead of interest expenses. The results obtained indicate that the management of the two banks have been efficient immediately after recapitalization.

Yield on Earning Assets (YEA) – The YEA rose gradually after the first phase of the recapitalization in 2009 in both cases with GCB recording quite a sharp rise than Ecobank. This implies that recapitalization results in more yield on earning assets, but it is too early to judge whether the yield resulting from the exercise can be managed well.

Earnings per share (EPS) – The EPS for both banks rose sharply after the first phase of the recapitalization in 2009. Averagely, the post-recapitalization EPS exceeded the pre-recapitalization EPS almost twice the number in both cases. Unlike Ecobank, the GCB as a local bank had to meet a lower capital requirement during the first phase.

The **Return on Equity (ROE)** was encouraging for GCB but very poor for Ecobank. Thus, shareholders of GCB receive very high returns in terms of dividend after the first phase of the recapitalization, whiles shareholders of Ecobank receive low returns in terms of dividend after the recapitalization.

The **Return on Assets (ROA)** for both banks rose, but the changes point to favourable utilization of assets towards earnings by GCB than by Ecobank after the first phase of the recapitalization in 2009.

Table 3 Banks' Performance Before and After 2009 Recapitalization

Performance Indicators	GCB PRE	GCB POST	ECOBANK PRE	ECOBANK POST
	%	%	%	%
Net Interest Margin	**9.2**	**13.5**	**5.2**	**7.2**
Yield on Earning Assets	**12.4**	**18.3**	**7.7**	**9.3**
EPS	**11.5**	**21.2**	**13.0**	**26.0**
Return On Equity	**18.4**	**22.4**	**33.0**	**28.0**
Return On Assets	**2.3**	**2.7**	**3.3**	**4.1**

Source: Field survey (2014)

1.6 CONCLUSIONS

There are many benefits attached to the appropriate capitalization of the banking sector, and the Ghanaian banks stand to gain a lot from them. Some of these benefits are identifies as follows:

- Strong capital is a basic indication of solvency, and provides a good cushion against loss; an insurance against insolvency;
- Recapitalization provides an opportunity for eliminating weak banks from the system in an orderly manner;
- Well capitalized banks have better prospects for profitability and operational efficiency;
- Recapitalization provides an avenue for broadening the shareholder base of banks, especially through public listing, thereby improving prospects for good corporate governance;
- Well capitalized banks are better placed to finance the long term development needs of the Ghanaian economy and businesses; and
- Banks are able to invest more in training and development of manpower.

While there are potential upside benefits to be derived from well capitalized banks, there are equally downside risks, especially where risk management is not given the requisite attention. The activities of banks are inherently risky and capital is not a complete panacea for risk taking. Boards and senior management of banks must ensure that their risk appetite is held in check and that the quality of risk management practices is not compromised.

1.7 RECOMMENDATIONS

The following recommendations are made to assist regulators and various banks to ensure that recapitalization achieves the purposes for which it is initiated.

- ***A Critical Look at Mode of Raising Funds***

Recapitalization is generally good for any economy. Nonetheless, the way banks raise their funds to meet the recapitalization requirement must be critically looked at so that they do not make their shareholders worse off. Banks need to improve the performance and quality of assets owned by improving the lending process and reducing the share of non-performing loans.

- ***Training and Retraining of Staff***

Training and retraining of banks staff on post recapitalization, consolidation integration and corporate culture conflicts management should be undertaken. Through that, the essence of the exercise can be made clearly known to staff who have the responsibility to ensure its success. They will also be sensitized to give out their best towards helping capital providers not becoming worse off.

- ***Total Reform Framework for Effectiveness***

Capital regulation needs to be a component of total reform framework to ensure effectiveness. In particular, other parameters of bank financial health like the quality of corporate governance, ethics, product development and return rendition should be included in any banking reform for significant result. In effect necessary policy framework should be put in place to improve on the quality of bank management the general security network, the reduction of fraudulent practices and insider dealings many of which factors have their effects on the banking sector stability.

- ***Suggestion for Further Studies***

Finally, the study also provides guidance for future studies and research efforts. It suggests that similar studies should be conducted after the December, 2012 deadline to assess the effect of the second phase of the recapitalization which requires local banks to meet the GH¢60 million capital requirement. After the assessment of the effect of the second phase of the exercise, a detailed study can also be conducted to consider a ten-year study by looking at five years before and after the recapitalization exercise in its totality.

Another study should also be aimed at bringing on board all banks listed on the Ghana Stock Exchange to consider the general effect of the recapitalization policy on the banking industry of Ghana. Such a study will significantly inform banking reform policies by regulators of the sector.

Overall, this study has found that judging from the profitability ratio of banks and test of equality of the pre and post mean for 2009 recapitalization exercise, it is not all the time that recapitalization transforms into good performance of the bank and it is not only capital that makes for good performance of banks. As banks recapitalize the economic environment has to be conducive to make good profit and deepen the financial structure of the economy.

The study posits that bank recapitalization exercise has significant relationship on the pre and post recapitalization profitability indices of the selected banks. Hence, there is significant relationship in profitability between the pre and post recapitalization periods. It is, however, important to note that the policy has still not been fully implemented since the deadlines have still not been fully met. As a result, the full effects of the exercise cannot be said to have been felt.

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