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EVALUATION OF BANKING CRISIS RESOLUTION FRAMEWORK IN THE WEST AFRICAN MONETARY ZONE

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Abstract

In this study, we benchmarked the crisis resolution frameworks of the Member States of the West African Monetary Zone (WAMZ) with the Financial Stability Board's Key Attributes (KAs) of effective resolution regime for financial institutions, using survey-based methodology. Questionnaires, reflecting the essential criteria of each KA were self-administered by WAMZ Member Central Banks. We generally observed that, banking crisis management provisions in the parent legislations of WAMZ Member States had apparent shortcomings when juxtaposed with the KAs. In particular, norms to govern set-off rights, contractual netting, collateralisation agreements and client assets segregation; establishment of crisis management groups; conduct of regular resolvability assessment and recovery and resolution plans are not adequately captured. In the light of increasing cross-border and pan-African banking activities in the Zone, it would be expedient for Member States to strengthen their legal and regulatory frameworks with these provisions relevant for the resolution of such banks.

Key Words: Crisis Resolution, Key Attributes, WAMZ, banking crisis, essential criteria, questionnaire,

JEL Classification: G01, G21, G28, G33

1 Introduction

Banking crisis is not a new phenomenon and is inherent in the banking system and the predictors are broadly classified into macroeconomic and bank specific factors (Böhm & Eichler, 2020; de Haan, Fang & Jing, 2020). The macroeconomic factors are business cycle, market failures, irrational reaction of economic agents and myopic foresight of market participants. Unfavourable macroeconomic phenomena such as large current account deficits, unsustainable national debt, excessive credit expansion, large capital inflows, and lagging regulation are frequently cited as other macroeconomic determinants of banking crises (Bicaba, Kapp & Molteni, 2014). The bank specific predictors of banking crises are balance sheet fragilities, failure to observe and uphold the tenets of transparency and disclosure of reliable financial information as well as weak reporting and regulatory frameworks (Grodecka-Messi & Ögren, 2020; de Haan, Fang & Jing, 2020). de Haan, Fang & Jing (2020), for instance, identified currency mismatch, maturity mismatch, high financial leverage increase, high levels of foreign liabilities, and low levels of liquid assets and domestic financial liabilities as important predictors of bank crises.

Banking crises has external consequences on depositors and other third parties, aside the contagion effect that promotes the risk of market failure or system-wide instability. The 2007/2008 global financial crisis, for instance, rippled emerging and developing economies in the form of capital volatility, tight credit, rapidly falling trade, currency fluctuations, fall in remittances and some banking crisis (Ahrend & Goujard, 2015). The enormous direct and collateral damage associated with banking crises necessitate the establishment of a crises resolution framework to ensure optimal resolution of banks.

Despite their importance in eliminating to large degree trade barriers and fostered greater economic interconnectedness, globalisation and advancement in information technology have accelerated the spread of banking crises across jurisdictions (Fratzscher et al, 2013; Ahmed and Zlate, 2014; Tong, 2017; Fauscha and Sigoniu, 2018; Galariotis, Makrichoriti and Spyrou, 2018; and Georgiadis, 2016). The spillover of banking crises from dominant economies could threaten large-scale private sector defaults, trigger distressed assets sales, high bank insolvency, deplete external reserves and cause loss of market confidence in small economies (Jimenez-Rodriguez and Sanchez, 2005; and Lilien, 1982). This economic reality may have influenced the Financial Stability Board to introduce a Global Standard for Banking Crisis Resolution.

Compliance to the Global Standard for Banking Crises Resolution in the West African Monetary Zone (WAMZ) is extremely important for two reasons. First, WAMZ financial system is bank-dominated. According to Levine and Zervos (1996), banking crises is a common feature of developing economies because of the daunting challenges of unfavourable macroeconomic environment, structural rigidities, lagging supervision, and absence of credible policy environment. For instance, there was banking crises in The Gambia between 1997 and 2013, while the episode of banking crises in Ghana occurred in the 1980s and 1990s, as well as 2015/2016. Guinea has experienced four major episodes of banking crisis since 1960, and the causes have been both external and internal but mostly bordering on undercapitalisation. The episodes of banking crises in Nigeria date back to 1929 with the most recent occurring in 2009/2010. From the period 2011 - 2015, vulnerabilities in the Sierra Leone banking system were heightened by the debilitating effect of the Ebola epidemic and the collapse of iron ore prices in the world market, which eventually led to the distress of two large banks, in addition to four banks that failed previously. Second, there is increasing incidences of cross-border banking activities among Member States of the WAMZ and the possible risk of contagion makes it pertinent to evaluate the gaps in crises resolution framework and broaden the scope for a regional approach to banking resolution. The stark implication of cross-border financial investment in the WAMZ is that transmission of banking crisis from one Member State to the other is relatively easy and high (Uche, 2009). Therefore, the urgent need to develop a robust regional resolution framework that particularly accounts for the individual national idiosyncrasies cannot be ignored.

This study attempts to evaluate the banking resolution framework of Member States of the WAMZ, key features and the relevance of the resolution frameworks in responding to the episodes of banking crisis they have experienced. In particular, the study pitches the resolution frameworks of Member States against the Key Attributes (KAs) of Effective Resolution Regime for Financial Institutions promulgated by the Financial Stability Board (FSB), identifies gaps and makes recommendation relevant for improving or developing national crisis resolution frameworks. Besides, the increasing incidences of cross-border banking activities among Member States and the possible risk of contagion makes it pertinent to broaden the scope and strive for a regional approach to banking resolution. The study would also provide useful information to facilitate and shape financial and banking discourse in the monetary zone. The rest of the chapters are structured as follows: Section 2 covers conceptual framework, highlighting the concept of banking crisis, impact and strategies for resolving banks. Section 3 reviews the global standards on resolution including the KAs while Section 4 focuses the discourse of banking crisis on the WAMZ. Section 5 discusses the data, methodology and findings of the study. Section 6 outlines the summary of findings conclusion and recommendations.

2.1 Global Standard for Banking Crisis Resolution

2.1.1 Overview of the Global Standard for Crisis Resolution

The events of the 2007/2008 global financial crisis highlighted the need to focus banking reforms on effective cross-border crisis management. Prior to the crisis, banks and international financial transactions had expanded in scale, reach and complexity without a commensurate scaling up of tools and techniques for resolving them. Thus, during the crisis, measures taken to resolve cross-border banks were largely ad hoc and had significantly recourse to public funds (BIS 2010). Consequently, the Group of Twenty Leaders (G20) Working Group on Reinforcing International Cooperation and Promoting Integrity in Financial Markets (WG2) in March 2009 requested international standard setting borders namely the Financial Stability Forum (now Financial Stability Board) and the Basel Committee to explore the possibility of issuing guidance on acceptable cross-border resolution mechanism to help coordinate national responses.

Consequently, in December 2008 the Basel Committee on Banking Supervision expanded the mandate of its working group on resolution, the Cross-border Bank Resolution Group (CBRG) to include specific actions taken by relevant authorities during the financial crisis on developments and processes of crisis management and resolution. Approved in December 2007, the CBRG was commissioned to review existing resolution policies and legal frameworks of some relevant countries, including allocation of responsibilities to unravel potential impediments to cooperation in the resolution of cross-border banks. In 2010 CBRG issued ten (10) recommendations to address the challenges involved in resolving cross-border banks, after an extensive stock take of the legal and policies regimes of G20 countries as well as specific case studies of regulatory actions taken for the resolution of some internationally significant banks notably, Fortis, Dexia, Kaupthing and Lehman Brothers groups. The recommendation covered measures for effective national resolution powers, frameworks for a coordinated resolution of financial groups, convergence of national resolution measures, cross-border effects of national resolution measures, and reduction of complexity and interconnectedness of group structures and operations. The rest included measures for planning in advance for orderly resolution, cross-border cooperation and information sharing, strengthening risk mitigation mechanisms, transfer of contractual relationships and exit strategies and market discipline (BIS 2010).

Specific efforts have been made to operationalise resolution standards within the European context, which has an integrated political and legal framework as well as an integrated financial market. The EU Bank Recovery and Resolution Directory (BRRD) adopted in July 2014 has essentially transposed the KAs into European Union (EU) laws. In line with the KAs, the institutional and legal frameworks for resolution have broadly been established by principal jurisdictions home to globally systemically important banks (G-SIBs), leaving the focus largely on planning for resolution (Huertas, 2016). The BRRD rests upon key resolution elements including recovery and resolution planning, a set of early intervention measures, a uniform set of resolution tools and powers, limited use of government support, and ex-ante bank contributory resolution funding source and an enhanced cooperation between Member States and other third-party authorities via resolution colleges.

The BRRD identifies three stages of resolution - pulling the trigger, stabilising the bank, and restructuring. Pulling the trigger, the first stage of the resolution process involves two (2) mutually inclusive decisions, namely determining the criteria for entering resolution and selecting the appropriate strategy and tools to employ. Five fundamental considerations in for determining the entry into resolution include the criteria to be used, the resolution tools, if any, to employ, the authority to make the decision, the timing for the decision to be implemented and the appropriate information to be communicate to the market in line with the decision made. On resolution tool-kit, the BRRD identifies four, namely sale of institution tool (selling of part or all of the distressed banks to interested acquirers); bridge institution tool (creating a bridge bank (temporary institutions) to take over the good assets and essential functions of a distressed bank, for immediate resale); asset separation tool (where immediate liquidation is not warranted, the "bad" assets of a distressed institutions can be isolated and wound down through an asset management vehicle) and bail-in tool (allowing shareholders and creditors to absorb losses).

The second stage in the resolution plan involves actions taken to stabilise the distressed bank in resolution. Here the resolution authority pursues measures to recapitalise the failed bank (usually by investors rather than taxpayers) and provide assurances of the continual existence of the recapitalised bank-in-resolution. These measures allows the concerned bank in resolution to continue to be in business.

The third stage asserts the importance of having a safe exit in the resolution plan, by either selling the bank to a third party, returning the bank to the private sector or winding the bank down. The BRRD had empowered resolution authority to carry out this function, including clearly delineating the rights of creditors in a restructuring process and facilitating the sale of "reserve capital" instruments to investors (World Bank 2017).

2.1.2 Key Attributes of Effective Crisis Resolution Regime

A major contribution to the literature on crisis resolution in an economy is the development of the Key Attributes (KA) of Effective Resolution Regimes for Financial Institutions. The KA, recommended by the Financial Stability Board (FSB) at its plenary meeting held in October 2011, was ratified by the G20 Heads of States and Government at the meeting held in Cannes, France, in November 2011[1].

The KA sets out important features the FSB considers germane for the resolution of failed financial institutions. These measures, if properly implemented allow the resolution of financial institutions without recourse to the taxpayers' funds and major disruption to the market.

The KA covers twelve (12) essential areas, including Resolution Scope; Resolution Authority; Resolution Power; Set-off, Netting, Collateralisation and Segregation of Client Assets; Safeguards; Funding of Firms in Resolution; Legal Framework Conditions for Cross-border Cooperation; Crisis Management Groups (CMGs); Institution-specific Cross-border Cooperation Agreements; Resolvability Assessments; Recovery and Resolution Planning; and Access to Information and Information Sharing. Section 5 provides detailed explanation of each of the KA, and benchmarks it with the resolution frameworks of Member States of the WAMZ.

2.2 **Overview of the Banking System and History of Banking Crisis in the WAMZ**

2.2.1 Overview of the Banking System in the WAMZ.

The banking system of the WAMZ varies in size, reach and development in reflection of the economic strength of Member States. The Nigerian banking sector dominates the Zone with total assets accounting for 81.9 percent, followed by Ghana (14.4 percent) and then Guinea (1.9 percent) (WAMZ Financial Stability Report 2019).

The Gambian banking sector is relatively small. In 2019, the banking sector was composed of 12 banks, nine (9) of which are foreign owned and controlled about 73 percent of the banking sector assets. Beyond banks, other credit institutions in the banking landscape included Microfinance Institutions (MFIs) classified into three (3) -Village Savings and Credit Associations (59), Finance Companies (3), and Fiduciary Financial Institutions - and 90 foreign exchange bureaus. The MFIs, which served the rural areas accounted for about 7.2 percent of the total banking assets. The top three banks accounted for nearly 54 percent of total banking assets. The banks operated 87 branches and 115 ATMs, which were concentrated in the capital city and urban centres. The distributive trade sector dominated credit distribution in the industry. The Banking Act 2009 is the main legal and regulatory framework of the banking industry. The Central Bank of The Gambia is both the banking and insurance sectors (which has 11 insurers) regulator. Key developments in recent period included implementation of IFRS 9, completion of Risk-based supervision framework and manual, on-going works on developing a deposit insurance framework and draft bank resolution and crisis management framework for the industry.

In terms of performance, The Gambian banking sector remains safe and resilient to normal shocks. Concentration risk remains a key supervisory concern. Notwithstanding, the industry

[1] See Communique of the G20 Summit held in Cannes, France, from November 3 – 4, 2011

continues to expand; with total assets increasing from GMD37.83 billion (US$793.72 million) to GMD50.86 billion (US$992.45 million) between 2017 and 2019. Banks were generally solvent; recording an industry CAR of 31.4 percent and impaired asset ratio of 5.2 percent at end December 2019. Liquidity level in the industry was comfortable. The sector was relatively profitable with banks lately relying more on non-interest income. In 2019, ROA and ROE stood at 1.8 percent and 15.0 percent, respectively.

In Ghana, the recent consolidation and clean-up exercise to contain identified vulnerabilities in the industry, has reduced the number of banks from 33 in 2019 to 23 in 2017. The commercial banks, which dominate the banking landscape (controlling 90 percent of total assets) is made up of 14 foreign-controlled banks, accounting for 60 percent of total banking assets. Other credit institutions offering inclusive financial services to the market include savings and loans companies (25), finance houses (15), leasing company (1), rural community banks (144), MFIs (566) and foreign exchange bureaus (419). The banking sector remains relatively less concentrated – the Herfindahl Hirschman Index (HHI) stood at 603 and the top five banks constitute 43.7 percent of total assets. The commerce and finance and the services sectors dominate banks credit lines. The Bank of Ghana is the competent regulator and supervisor of the banking sector, and the Ghana Deposit Protection Authority oversees the deposit protection scheme. The Banks and Specialised Deposit-taking Institutions Act 2016, (Act 930) and the Ghana Deposit Protection Act, 2016 (Act 931) are the main legal and regulatory framework of the industry. The recent upward revision of the minimum capital requirement and conclusion of the banking sector consolidation and clean-up exercise, implementation of the capital requirement directive for the phased implementation of Basel II/III capital requirement, and implementation of IFRS 9/16, and the introduction of the Ghana Reference Rate, are some major supervisory initiatives embarked upon by the central bank. Additionally, a couple of operative directives in line with Act 930 such as directives on corporate governance, fit and proper test, voluntary winding up, mergers and acquisitions, among others have been issued in recent years.

The Ghanaian banking sector remained stable post-capitalisation with improved performance in key financial soundness indicators as banks gradually deploy their additional funds. Banks assets rose for the 2017-2019 period, increasing by 39.3 percent to GHS130.43 billion (US$23.57 billion) or 38 percent of GDP. The sector is adequately capitalised (CAR of 23.0 percent), liquid (liquid assets-to-total assets stands at 36 percent) and profitable. Though relatively high at 14 percent, NPL ratio declined from 18 percent in 2017, with a provisioning coverage ratio of 55 percent. ROA and ROE stand at 4 percent and 20 percent, respectively.

The Guinean economy is largely cash-based, and the assets of the financial sector accounted for 22.0 percent of GDP. At end-2018, the Guinean financial system comprised 16 banks, 21 non-bank deposit institutions and 12 insurance companies. The financial sector is bank dominated, accounting for about 94.6 percent of the total assets of the financial sector, followed by the insurance (2.8 percent) and non-deposit-taking institutions (2.5 percent) (IMF 2019). At end-2018, total assets of banks stood at GNF22,894.14 million. Unlike the nonbank deposit-taking institutions and insurance sectors, which are predominantly domestic controlled, all the commercial banks are foreign group subsidiaries, belonging to French international groups (2) and pan-African or regional groups (14). The top three banks accounts for nearly 57.4 percent of the banking sector in terms of total assets (IMF 2019). The Central Bank of the Republic of Guinea (BCRG) regulates all the sectors of the financial system, with oversight responsibility for banks, microfinance institutions (MFI), insurance sector and mobile money operators.

In terms of banking sector performance, CAR declined from 16.8 percent in 2015 to 15.2 percent at end-2018, though above the 10.0 percent regulatory thresholds. Similarly, NPL deteriorated from 6.1 percent to 12.2 percent, respectively. Between 2015 and 2018, ROA and ROE declined from 2.2 percent and 20.9 percent to 2.0 percent and 19.3 percent, respectively.

The Liberian banking system accounts for less than 1.0 percent of the WAMZ banking sector. It comprises 9 commercial banks, 12 rural community banks and 18 MFIs (16 of which are credit-only institutions). Of the 9 banks, 8 are foreign-owned and controls 78.0 percent of assets in the market. There are 93 and 102 bank branches and ATM networks in the industry, respectively. The MFIs, with over 95.0 percent female clients, operate 22 branches in six (6) out of the country's fifteen counties. The top five banks accounts for 83.0 percent of the market (HHI of 1598). The Central Bank of Liberia regulates and supervises both the banking and insurance sectors. On performance, the Liberian banking sector remain resilient despite macroeconomic challenges. Between 2016 and 2019, total banking assets more than doubled in nominal terms to LRD179.49 million (US$ 992.45 million). CAR is well above the 10.0 percent threshold, averaging at 25.0 percent, despite the high asset impairments in the industry (NPL ratio of 18.0 percent). The industry is relatively profitable. ROA and ROE averages 2.0 percent and 14.0 percent, respectively.

The Nigerian banking system is relatively large and diversified, made up of 29 commercial banks (with 6 regional banks), six (6) development finance institutions, five (5) discount houses, 45 finance houses, five (5) merchant banks, two (2) non-interest (Islamic) banks, 35 primary mortgage institutions, three (3) payment service banks, 1,022 microfinance banks and 2,991 Bureau de change. There are five (5) foreign controlled banks, accounting for 15.3 percent of the total banking assets. The banking sector is relatively less concentrated (HHI stood at 832), with the top five banks constituting 57.0 percent of total banking assets. The oil sector dominates sectoral credit distribution, accounting for over 30.0 percent of the industry. The banks operate 5,432 branches and 19,219 ATM networks across the geographical reach of the country.

In terms of the regulatory architecture, the Central Bank of Nigeria (CBN) is the regulatory and supervisory authority of the banks with the Nigeria Deposit Insurance Corporation (NDIC) overseeing the deposit insurance scheme. Recent developments in the industry include progress with the Basel II and III capital framework implementation, introduction of macroprudential tools (loan-to-deposit ratio) and creation of more supervisory colleges. In terms of performance, the Nigerian banking system has performed relatively well in recent years, amid supervisory concerns relating to uncertainties in the oil market, concentration risk, cyber risk and insecurity. Over the period 2017-2019, total banking assets rose by 24.1 percent to NGN40.58 trillion (US$132.21 billion). Banks appear well capitalised, with average CAR of 14.5 percent. NPL ratio in 2019 stood at 6.1 percent, with provision to NPL coverage ratio of 90.1 percent. Liquidity and profitability levels remain high, with the industry returning 2.3 percent and 25.8 percent on assets and equity, respectively.

In Sierra Leone, the banking system is relatively small, with asset size of SLL 8.5 trillion, accounting for 26.4 percent of GDP. In terms of institutional composition of the banking sector, there are 14 commercial banks and one (1) Apex bank, as well as other credit institutions comprising 17 community banks, 25 credit-only microfinance institutions (MFIs), four (4) deposit-taking microfinance institutions, 59 financial services associations, two (2) mobile financial services providers, two (2) discount houses, one (1) leasing company, one (1) mortgage finance company and 68 Bureau de change. Of the 14 commercial banks, 10 are foreign owned, controlling 60.4 percent of the market in terms of total assets, two (2) state-controlled (30 percent), and two (2) domestic and privately owned. The banks operate 115 branches and 107 ATMs. The level of concentration is moderate; the top five (5) banks account for about 65.0 percent of the total banking assets. The Bank of Sierra Leone is the regulatory and supervisory authority of the banking sector and capital market activities. The Banking Act 2019 is the main legal and regulatory framework of the banking sector.

The Sierra Leonean banking system remained generally safe and sound in recent years, with contained financial stability risks, mainly credit and exchange risks. Between 2017 and 2019, total assets grew moderately from SLL7.43 trillion (US$986.20 million) to SLL 9.5 trillion (US$977.98 million). Banks are adequately capitalised (CAR stood at 41.7 percent in 2019) and liquid with NPL ratio of 16.6 percent and NPL provision coverage ratio of 71.9 percent. The industry is profitable; with ROA and ROE of 7.6 percent and 28.2 percent in 2019. A recent development in the banking is the upward revision in the minimum paid up capital for banks and passage of the new Banking Act 2019, which replaced the Banking Act 2011.

2.3 History of Banking Crisis in the WAMZ

2.3.1 Banking Crisis in The Gambia

The Gambia's experience with bank failures include the failures of The Gambia Agricultural Development Bank, The Gambia Commercial and Development Bank, Continent Bank, Oceanic Bank Plc, Prime Bank Limited, and Keystone Bank (Gambia) Limited.

The Gambia Agricultural Development Bank failed due to poor corporate governance, poor credit administration, and high Non-Performing Loans (NPLs), among others. The Central Bank of The Gambia (CBG) responded by placing it under prescription and subsequently liquidated the bank. The Gambia Commercial and Development Bank had corporate governance issues in 1990 and was placed under prescription as well as the imposition of a CBG advisor. The bank was later sold to Meridian BIAO Bank (Gambia) Limited, a subsidiary of Meridian BIAO International in 1992 (Jaabi 2017), which also failed as a result of liquidity challenges. CBG took over the bank, imposed an advisor and issued a bond to fill the gap in the balance sheet of the bank. In October 1997, the bank was privatised and renamed Trust Bank (Gambia) Limited. Shares were sold to the Gambian public and other institutional investors.

In the early days of the operations of Continent Bank, CBG conducted three on-site examinations with the first being conducted barely two months after the bank commenced operations. This inspection was necessitated by the unsound manner in which the bank was being operated. The supervision team recommended that the bank's license be withdrawn, but this could not be implemented as the bank resisted the action of CBG by obtaining a court injunction restraining it from taking that action. However, the low level of prudence, allegation of impropriety by senior management and directors, concerns about the level of professionalism by the external auditors and solicitors, breakdown in internal controls and moreover the bank's inability to meet its daily depositors' requirements in August 2001, led to its seizure by CBG. A taskforce and an interim management team from CBG were posted to oversee the activities of the bank. It is important to note that the taskforce operated for one (1) year before the decision to liquidate the bank in 2003 was taken.

In the case of Oceanic Bank Gambia, the reform in the Nigerian banking industry by CBN in 2009 necessitated the bank to wind up rather than meet the CBG minimum capital requirement of GMD200 million at end-December, 2012. Following the absorption of the parent bank in Nigeria by Ecobank Nigeria Plc, the bank had to close down all its international operations including The Gambian subsidiary. For Prime Bank Limited, the parent bank was accused of money laundering and subsequently listed in the US sanctions list which negatively impacted on the operations of the subsidiary. Consequently, the shareholders decided not to meet CBG capital augmentation to GMD200 million. Hence, the bank had to wind up by December 2012. As a result, the bank filed for voluntary liquidation in 2013 and CBG acting under Section 39 of the Banking Act 2009 granted approval for the voluntary liquidation. The bank had sufficient liquidity to meet its winding up liabilities.

Keystone Bank (Gambia) Limited, formally Bank PHB, was originally established as an international bank for commerce and industry (BICI). Bank PHB Plc, the parent bank in Nigeria was subsequently taken over by CBN in 2011 for failing to meet capital requirements. Shortly thereafter a bridge bank named Keystone Bank was created to take over the assets and liabilities of the failed Bank PHB Nigeria and its subsidiaries. After meeting the minimum capital requirement of GMD200 million as directed by CBG in 2012, this capital was eroded by end-December 2013. This and other factors such as failure to meet capital adequacy ratio, exceedingly high NPL ratio and poor corporate governance led to the bank being placed under prescription by CBG. In an effort to manage the distress situation of the bank, CBG appointed an advisor as well as engaged the services of external auditors to conduct forensic audit and to ascertain the true state of affairs of the bank. The decision was taken by the central bank to divide the bank into a “good” and a “bad” bank, with the good bank renamed Keystone Bank and the bad bank named Keystone Asset Management Company (KAMCO) to take over the NPL of the bank.

2.3.1.1 **Responses to Banking Crisis**

In summary, CBG resolved banking crisis/distresses by a combination of the following measures:

a) Invest money in the failed institutions as a lender of last resort and stabilise the bank, thus preventing bank runs
b) Place banks under prescription and appoint advisors to protect the interest of depositors
c) Privatisation and sale of shares to the general public and other investors
d) Through compulsory and voluntary liquidation
e) Introduction of KAMCO to take over bad assets of banks

In resolving distress in the banking industry, the CBG relied on a number of frameworks, which included the Agricultural Development Bank Act 1981 and the Banking Act 2009, previously the Financial Institutions Act 1992, which has resolution provisions. CBG also cooperated and collaborated with the Ministry of Finance and Economic Affairs.

2.3.1.2 **Measures to avert recurrence subsequent Crisis**

In order to prevent future episodes of banking crisis, CBG has the following initiatives in place:

a) The Prompt Corrective Action (PCA) which is an early warning tool;

b) Deposit Insurance Scheme; and

c) Introduction of the national crisis resolution framework.

2.3.2 Overview of Banking Crisis in Ghana

Ghana's experience with banking crisis occurred in the 1980s and 1990s, following the macroeconomic challenges experienced in the late 1970s and early 1980s. After attaining independence, the Government intervened in every sector of the economy including and in particular the financial services industry in an attempt to spur its industrialisation agenda. Interest rate controls, credit ceilings, and high reserve requirements were placed on banks. These interventions, which created massive distortions in the financial landscape, were further aggravated by the harsh macroeconomic challenges in the late 1970's with the economy reaching a trough in 1983. Real per capital GDP, in 1983 declined to negative 3.0 percent, inflation peaked at 123 percent (rendering real interest rate negative) amidst low levels of saving and investment as well as low international trade volumes. By 1983, confidence in the financial system was at an all-time low. Currency in circulation had increased due to negative real interest rate on deposit as well as the bad publicity from the demonetisation programme. High default rates had impaired the quality of bank assets and the high rate of inflation had wiped out the capital base of most banks, which had begun to show signs of distress.

In 1983, the Economic Recovery Programme (ERP) was launched with the principal aim of stabilising the economy and putting it back on the path of growth. The ERP introduced economic reforms relating to fiscal discipline, trade and exchange system, and deregulation of many economic activities, among others. It largely succeeded in reversing the negative economic growth trend, improved fiscal position and inflation. The ERP also had a financial sector reform programme, the Financial Sector Adjustment Programme – FINSAP, as a core component. Initiated in 1987, FINSAP introduced massive reforms, including the abolition of the control regime, institutional restructuring, and enhancement of the legal and regulatory framework for banking operations. Under FINSAP, a new banking law was enacted in 1989 (PNDCL 225), top management of state-owned banks were replaced, credit ceiling and credit allocation policies were abolished, controls on bank charges were lifted, and interest and exchange rates were liberalised. Banks were recapitalised by offsetting their non-performing loans with interest-bearing FINSAP bonds and the loans transferred to the government established Non-Performing Asset Recovery Trust (NPART) in 1990. These notwithstanding, the Bank of Ghana (BoG) supervised and facilitated a seamless liquidation of four failed banks. The Bank for Credit and Commerce Ghana Limited (BCCI) was liquidated in 1994; the Meridian BIAO was resolved in 1995; while the Bank for Housing & Construction (BHC) and the Ghana Cooperative Bank (Co-op) were both liquidated in 2000.

Founded in 1972, BCCI international came under the radar of most financial regulators and intelligence agencies in the 1980s, due to their massive involvement in money laundering and other financial crimes. The close down of the parent company in 1991 affected the operations of the Ghanaian subsidiary, the Bank for Credit and Commerce Ghana Limited (which started operations in Ghana in 1987) since most of its Ghanaian and foreign resident customers had invested in the bank's branches in UK, Grand Cayman and Tokyo. BoG reacted to the events and the ensuing panic among customers of the Ghanaian subsidiary, by appointing a Resident Supervisor and placing the operations of the bank under strict supervision, restructuring and resolution mechanism, including moratorium on new loans and capital expenditures. The Registrar General was appointed as the final liquidator and was assisted by the Resident Supervisor in recovering loans and realising other assets of the bank. BCCI international declared a 23.0 percent and an additional 10.0 percent payment package for its international clients from the amount realised from its recovered assets. Under the supervision of the liquidator, customers received the approved 33.0 percent settlement package plus the additional amount realised from the assets of the local bank.

The demise of Meridien BIAO in Ghana was precipitated by the liquidity challenges faced by its parent bank, which was compounded by the merger of the Meridien Group and a network of 11 banks bought from the French liquidator, Banque Internationale pour L'Afrique Occidental (BIAO). In Ghana, the bank became capital deficient when it could not immediately recover its foreign currency placements amounting to about US$8.0 million from its majority shareholder, the Meridien BIAO International. Under the supervision of the BoG, the Social Security and National Insurance Trust (SSNIT) together with the Ghana Reinsurance Organisation (GRO) announced a US$7.2 million rescue package for the local Meridien BIAO and transformed it into The Trust Bank, which was later acquired by Ecobank Transnational.

The collapse of Bank for Housing & Construction (BHC) and the Ghana Cooperative Bank (Co-op) was clearly due to credit fraud, perpetuated by a supermarket company called A-Life. A third bank, which was also involved in the A-Life credit fraud, however, survived due to its strong capital base. Employing 'cross firing' - a scheme in which a depositor with accounts in two or more banks or bank branches take advantage of the time required for cheques to clear in order to obtain unauthorised credit – the company took advantage of the cheques purchases and the bank cheque clearing system to perpetuate the credit fraud with the connivance and assistance of some bank officials. The period saw massive 'cheque kiting', payments against un-cleared effects, large un-reconciled items and cheque suppression among others, done with insider help. The A-Life credit scandal coupled with poor asset quality saddled these two banks with illiquidity and insolvency leading to their liquidation.

PricewaterhouseCoopers (PWC), an international auditing firm, was appointed by BoG as the official liquidator of the banks. The substantial recoveries from the assets of the two banks represented 90.0 percent of total estimated targets. The assets realised covered cash and short-term funds, loans, investments and Property, Plant and Equipment (PPE). The government intervened with a total of GHS14.0 million to bail-out depositors. As a result of the stringent measures adopted by the liquidator 68.0 percent of total recoveries were collected from debtors, significant among them was a recovery of GHS4.3 million from A-Life related accounts. The two liquidated banks had substantial properties which were sold to defray part of the bailout provided by the government. Workers of BHC formed a consortium and used their terminal benefits to buy a substantial proportion of the properties sold.

Quite apart from these major bank failures, the Ghanaian financial sector has also experienced on a micro level, some other forms of financial sector debacles. The case of Pyram and R5 operating in the savings and loans space without license in the 1990s was a clear 'ponzi or pyramid' scheme. The perpetrators of this scam lured unsuspecting customers with high interest rates. Earlier in 1992, the Bank of Ghana revoked and closed down 23 Rural and Community Banks (RCBs) and funded the payment of clients' deposits. These banks were engulfed with illiquidity, bad loan books, fraud and general insolvency. In a more recent period, the microfinance sector saw similar crisis glimpses with the emergence of some unlicensed institutions, offering high and unsustainable interest rates and diverting loanable funds into non-core activities. This led to the collapse of some of these microfinance companies including Onward Investment, Noble Dream and DKM. The Bank of Ghana through its dedicated department, the Other Financial Institutions Supervision Department (OFISD), in response, initiated measures, including mystery shopping, literacy campaigns and collaboration with law enforcement agencies to clamp down on these unlawful companies

In 2015 and 2016, BoG initiated a comprehensive asset quality review (AQR) to ascertain the status of loan and investment portfolios of banks. The AQR highlighted among others, severe deterioration in asset quality; significant shortfalls in provisioning; undercapitalisation and heavy reliance on Emergency Liquidity Assistance (ELA) by some banks. The week balance sheets of banks translated into a slowdown in growth of private sector credit, as well as higher lending rates and spreads, weakening the transmission mechanism of monetary policy.

In response, BoG directed the undercapitalised banks to submit recapitalisation or capital restoration plans, and work towards implementing them in line with the Banks and Specialised Deposit-taking Institutions Act, 2016 (Act 930). BoG initiated a financial sector reform programme to further develop, strengthen and modernise the financial sector of the country, and as first step among other regulations, increase the minimum paid-up capital for banks from GH¢120 million to GH¢400 million to boost the liquidity, resilience and solvency of the industry with a scheduled deadline of December 2018. The reforms were motivated by the need to safeguard depositor interests; avoid systemic crisis due to interconnectedness among banks and between banks and other non-bank financial institutions; maintain public confidence; and minimise banking and banking-related job losses.

In August 2017, BoG revoked the licences of two banks (UT Bank and Capital Bank), appointed PricewaterhouseCoopers (PWC) as Receiver and executed a Purchase and Assumption (P&A) transaction, allowing GCB Bank Limited to assume all their deposit liabilities and selected assets. The rest of the liabilities were to be realised by the receiver. The Government of Ghana subsequently issued a bond to cover the deposits and selected liabilities that was taken over by GCB Bank. In March 20, 2019, BoG appointed KPMG as an official administrator to take over affairs and restructure another ailing and insolvent (having negative CAR) bank, UniBank Ghana Limited from immediate collapse. UniBank, plagued with legacy issues, poor corporate governance and risk management practices was one of the nine (9) banks identified as significantly undercapitalised after the AQR. Similarly, in April 2018, BoG appointed an Advisor to Sovereign Bank Limited, after its December 2017 on-site examination revealed some governance and capitalisation challenges in the bank. The Advisor was thus expected to advise the management of the bank and monitor its planned recapitalisation programme and governance reforms agreed with BoG. Sovereign Bank obtained its licensed in January 2016.

In August 1, 2018, BoG revoked the licences of five (5) banks - uniBank Ghana Limited, The Royal Bank Limited, Beige Bank Limited, Sovereign Bank Limited, and Construction Bank Limited -, and appointed KPMG as the Receiver of these banks. A bridge bank, the Consolidated Bank Ghana established by the Government, assumed all deposits and other selected liabilities and assets of these banks, residues of which were transferred to the Receiver. According to BoG, the first three (3) banks, uniBank Ghana Limited, The Royal Bank Limited and Beige Bank Limited were deeply insolvent, while the remaining two (2) - Sovereign Bank Limited, and Construction Bank Limited - obtained their banking licences by false pretences through the use of suspicious and non-existent capital. Similarly, the Government issued a bond to cover the deposits and liabilities of these banks. In January 4, 2019, BoG further revoked the licences of two more insolvent banks - Premium Bank and Heritage Bank -, appointed a Receiver and signed a P&A transaction between the Receiver and CBG to transfer all deposits and selected liabilities and assets to the latter. Another bank, GN Bank, unable to meet the new capital requirement opted to downgrade to a savings and loans status. This application was approved by BoG. By end-January 2019, the number of commercial banks in the Ghanaian sector had reduced to 23 from 33. Notable regulations, which were issued to strengthen the risk management processes of the industry and the reforms, included the directives on Corporate Governance in April 2018, Voluntary Winding up in September 2018, the Fit and Proper Test, Mergers and Acquisition Directive and the implementation of Pillar I of the Basel II/III capital requirement.

The banking sector clean-up exercise was followed by reforms in the lower tier credit industry. On May 31, 2019, the licenses of 386 microfinance companies (155 of which had ceased operations), comprising 347 microfinance institutions (MFIs) and 39 microcredit institutions were revoked by BoG. A Receiver was appointed, and the Registrar of Companies was notified to commence the process of liquidating the microcredit institutions. The Government guaranteed all deposits and made available funds for deposit payment through the Bridge Bank, Consolidated Bank Ghana. BoG, concluded its clean-up exercise on 16th August 2019, when it revoked the licence of 15 savings and loans companies, 8 finance houses, 1 leasing company and 1 remittance company, appointed a receiver and notified the Registrar of companies to commence the liquidation of these companies. Similarly, the Government of Ghana provided funds for the payment of depositors through CBG.

Among the myriad of reasons cited for the revocation of these licences included: insider and related party transactions in excess of statutory limit; weak Board oversight and override of internal controls; creative accounting practices thereby misrepresenting banks' financial condition; noncompliance with Bank of Ghana provisioning norms and failure to implement Bank of Ghana on-site examination recommendations; non existing paid up capital; non-existence of investments in capital market regulated institutions and non-collaboration with other regulatory bodies. The rest were inadequate capital commensurate their risk taking businesses; excessive risk taking without the required risk management function; poor investment decisions and lack of due diligence on counterparties; use of depositors' funds to finance long-term expenditures leading to large assets-liabilities mismatch; and cash and assets suppression.

2.3.2.1 Responses to Banking Crisis

From the foregoing, the BoG's interventions in the banking industry to prevent or resolve crisis/distresses had been through a combination of measures, including:

a) Appointment of a Resident Supervisor and placement of the operations of ailing banks under strict supervision, restructuring and resolution mechanism, including putting moratorium on new loans and capital expenditures.
b) Appointment of the Registrar General as the final liquidator, and assisted by the Resident Supervisor in recovering loans and realising other assets of ailing banks.
c) Engaging consultants usually international auditing firm, as the official liquidator or receivers of the banks.
d) Instituted measures, such as mystery shopping, literacy campaigns and collaboration with law enforcement agencies to clamp down on unlawful financial companies.
e) Establishments of bridge banks and P&A transactions.
f) Liquidation

2.3.2.2 Strategies to avert future crisis

In the light of these challenges in the Ghanaian financial system, a new banking law, the Banks and Specialised Deposit-taking Institutions Act, 2016 (Act 930) was enacted with clear provisions to cater for crisis management and bank resolution. Sections 105 - 142 in particular outline resolution mechanisms, including prompt corrective action, the appointment of an official administrator, dividend suspension, placement of moratorium, recapitalisation, mergers and acquisition, restructuring, removal of directors and key management personnel, receivership and liquidation among others. In addition, the Deposit Protection Act, 2016 (Act 931) was also passed to kick-start the legal and regulatory framework for providing a safety net for small depositors. The scheme was operationalised in 2019. BoG also with technical assistance from the World Bank developed a Crisis and Resolution Framework based on the provisions of the new Act.

2.3.3 Overview of Banking Crisis in Guinea

Guinea has witnessed four major periods of banking crises. The first crisis followed from the enactment of Decree No 205 of 27th July 1960, which imposed on deposit money banks a reserve requirement of 50.0 percent. This was deemed excessive and four (4) foreign banks fell short of the requirement. Three (3) banks (Societe Generale, Credit Lyonnais and Banque Commerciale Africane) could only afford 25.0 percent of the reserve requirement ratio, while the fourth bank (Banque Nationale pour le Commerce et l'Industrie) could afford 45.0 percent, triggering negotiation between the parent companies of these banks and the Guinean Authorities. The three (3) releases sought by the banks - extending the implementation deadline, reducing the rate and rediscounting the requirement – were not granted. Following the refusal of the Guinean Authorities, the French Ministry of Finance restricted the parent companies from providing liquidity to their subsidiaries in Conakry. Consequently, the licenses of these four (4) banks were revoked by a decree dated 11th August 1960, for non-compliance with the minimum reserve requirements. A second decree on the same day appointed public Auditors to carry out the liquidation processes of these banks.

The closure of the French-owned banks created massive distortion in the banking system due to their over exposure with the system, including recovering their overdrafts granted to major commercial enterprises. In view of the crisis caused by the closure of the commercial banks, the central bank, which by Statute was authorised to undertake operations directly with corporate and individual customers, opened 12 branches across the country in order to take over the operations of the French-owned banks that ceased activities. In addition, the Authorities established a couple of public banks in 1961.

The second episode of failure occurred in 1985, when six (6) existing government (state-owned) banks were closed down and barred from operating in the country, due to mismanagement. The illiquidity and insolvency of the banks had reached intolerable levels owing to significant amount of bad loans and advances to some State-owned enterprises, among others. The decision to close down these public banks was not accompanied by any resolution or take-over plans. Hence, some provincial branches of commercial banks were transformed into branches of the Central Bank or into regional funds of Treasury. The liquidation of these banks was initiated in 1986 costing the Government about GNF 43 billion, of which a significant portion was funded through the printing of money, resulting in pressure on domestic price and exchange rate. To mitigate the impact of the closure on depositors, the Authorities considered in 1987 the following measures:

a) Immediate payment of deposits less than GNF 1 million; and
b) For balances above GNF 1 million, holders could either acquire Treasury bills known as "Development bonds" remunerated and payable in six (6) semesters or claim compensation with customs duties and government taxes.

The crisis of the Banque Internationale pour l'Afrique en Guinée (BIAG) started in 1988 when one of its shareholders (BIAO Paris) faced severe setbacks arising from sovereign loans granted to some African States facing oil price shocks. The bank was established in August 1985 with

51.0 percent equity held by the Guinean Government, 34.0 percent by the Banque Internationale pour l'Afrique de l'Ouest (BIAO) and 15 percent by the International Finance Corporation for Investment and Development in Africa (IFCIDA). In 1991, BIAO was purchased by the Meridian International Bank Group Limited, which took over majority of its assets, including the subsidiary in Guinea. The Meridian Group later faced severe challenges; and most of its subsidiaries in Africa were thus taken over by the Governments or private interest groups of host countries. Many foreign partners withdrew from BIAG in September 1993, resulting in provisional administration of the Bank on 18th December, 1993. In September, 1994, a take-over agreement was signed for BIAG's restructuring, which in effect reduced the Guinean Government share from 51.0 percent to 19.0 percent, the share of Societé Belgolaise to 30.0 percent and the remaining 51.0 percent taken up by African investors. The collapse of Belgolaise and the poor handling of the bank's loans portfolio resulting in GNF 11.2 billion of liability to the Guinean Treasury, led to the unsuccessful implementation of the take-over plan, and ultimately the liquidation of BIAG on 19th November, 1997. A liquidator was appointed to pay back depositors and a Committee was set up to recover all the Bank's assets.

In the early 1990s, Credit Lyonnais faced significant challenges that led to its restructuring in France. Meanwhile, its subsidiary in Guinea, Union Internationale de Banque en Guinée (UIBG) was confronted with difficulties on account of its high rate of non-performing loans, forcing it to sell its shares in UIBG to the BCP Financial Group that recapitalised the Bank. The Government did not intervene in this crisis by injecting funds. However, the Central Bank oversaw the recapitalisation process by ensuring compliance with rights of the major shareholders.

From 1994 to 2004, the Banque Islamique de Guinée (BIG) recorded deterioration in its financial position mainly due to deteriorating credit portfolio and declining activities of the bank, which resulted in operating losses. The BIG underwent three phases of restructuring that led the Guinean Government to adopt a set of commitments, including:
a) A long-term lease for 99 years with the Bank over the site of NAFAYA building;
b) A subordinated loan of GNF 4.6 billion; and
c) An advance of GNF3.0 billion subscribed to the Treasury bills in 1998 and extended in 2004.

Another bank that failed in the 1990s was the Banque Populaire Maroc Guinéenne (BPMG) due to undercapitalisation and declining activities. As one of the shareholders, the Government signed a restructuring MoU, which opened the capital to other investors. In this regard, the Government injected GNF 200 billion, representing the residual of its unpaid balance in the bank's share capital. The Government also committed GNF 1.8 billion, representing 30.0 percent of required funds for the BPMG recapitalisation for which the Government advanced GNF 1.6 billion under the following conditions:
a) An advance paid for a term not exceeding five (5) years;
b) An advance fully paid on unrecoverable and non-negotiable Treasury bills with interest at the market rate and pledged in favor of the Government;
c) The Treasury bills are not covered at liquidity coefficient numerator;
d) The advance would be recovered during the calculation of the bank's equity.

The Banque Africaine pour le Development Agricole et Minier (BADAM SA) was licensed on 19th December, 2008 and started operations in March 2010, subject to having a reference shareholder as provided for in the banking Act, as well as increasing its share capital to a minimum capital requirement of GNF 50 billion. After 16 months of operation, the first examination of the bank conducted from 29th August to 20th October 2011, observed substantial breaches of prudential regulations and norms. Specifically, the financial statements were inaccurate, ill-prepared and inconsistent; recorded negative net assets of GNF 19.5 billion from February 2010 to September 2011 as a result of high operating expenditure and maintenance costs of non-performing branches; and poor corporate governance and internal control system of the bank.

Following these observations, the BCRG adopted the following measures:

a) Commissioned an independent audit firm, KPMG, to examine the situation of the bank, which came out with the same conclusion as the BCRG.

b) Directed the bank to submit a restructuring plan.

c) Placed the bank under an official administration by a Decision No D/2011/034/CAM dated 15th December 2011, due to the unsuccessful adherence to the restructuring plan. However, due to inadequate resources and the severity of the situation, this provisional administration could not implement all the necessary remedial actions.

d) Revoked the licence of the bank by a Decision of the Licensing Committee on 14th December 2012.

e) Appointed a liquidator to liquidate BADAM.

2.3.3.1 Responses to Banking Crisis

From the analysis above, the following are the measures BCRG adopted in resolving failed banks:

a) Appointment of Auditors to carry out the liquidation process of distressed banks.
b) Central bank opening of branches across the country and taking over the operations of French-owned banks that ceased activities.
c) Establishment of state banks in 1961 to address the absence of commercial banks.
d) Bailed out customers whose deposit balance was not more than GNF1.0 million; and for deposit balances above GNF1.0 million, the holders could either acquire the Treasury bills known as “Development bonds” remunerated and payable in six (6) semesters, or claim for compensation with customs duties and government taxes.
e) Appointment of a liquidator to recover bank assets and settle claims including depositors.
f) Government injection of funds to help partly owned banks to meet capital requirements, and diversification of ownership.

2.3.3.2 Steps to avert recurrence of the Crises

The BCRG had commenced implementation of deposit guarantee fund for vulnerable depositors and its supervisory activities are carried out in accordance with Basel I, while works are on-going to modernise the financial system, including automation of banking supervision processes, migration to IFRS and Basel II/III.

2.3.4 Overview of Banking Crisis in Liberia

Bank failures in Liberia became prominent due to the 1989-2003 civil war. There are thirteen (13) failed or inactive banks still being handled by the Central Bank of Liberia (CBL). Some of these failed banks – Liberia United Bank Incorporated (LUBI), The Liberian Trading and Development Bank Limited (TRADEVCO), BCCI, Bank of Liberia (BoL) and ROVIA Bank

- are under liquidation although the statute of limitation has elapsed for many. Others, such as, Ducor Trade & Commerce Bank, Inc. (DUTCH Bank), First Commercial Investment Bank (FCIB), EURO, MERIDIEN, First United American Bank (FUAB), National Housing and Savings Bank (NHSB), Agricultural Cooperative Development Bank (ACDB) and First International Merchant Bank (FIM Bank) closed their doors without supervisory intervention due to the prolonged civil war.

In 2012, the Central Bank of Liberia (CBL) commissioned an external auditing firm (Baker Tilly Inc.) to conduct a comprehensive audit of all failed banks in order to establish the true liabilities of the failed banks to the public. In addition, they were mandated to verify and validate outstanding customers' deposit balances, other creditors' balances, customers' loan balances, account balances with the central bank, previously the National Bank of Liberia (NBL) now CBL, payments made to some depositors on behalf of the failed commercial banks by the NBL/CBL, and claims from former employees of the failed banks. Following the audit exercise, four (4) of the thirteen failed banks, namely, EURO, DUTCH, FUAB and FIMB were de-listed from the list of financial institutions in 2012.

LUBI, licensed in 1992 as a full-fledged commercial bank, operated until April 6, 2000, when its financial condition deteriorated, raising concerns about its ability to continue as a going concern. The bank's licence was revoked and liquidated by the CBL due to liquidity problems, mismanagement and poor corporate governance. After a meeting with the Board of Directors of LUBI, CBL requested the implementation of a Strategic Turn Around Plan (STAP). On August 2, 2000, a Memorandum of Understanding (MOU) was signed between LUBI and CBL for the appointment of a Provisional Administrator in line with the Financial Institutions Act of 1999. Among other things, the provisional administrator was to oversee the full implementation of the STAP and advise CBL within a year of its operations. The reorganisation itself was the product of a Strategic Rescue Package formulated by the bank and approved by central bank. The Provisional Administrator worked for 15 months but could not secure sufficient capital to revive the bank. The CBL in August 2001 filed to the 5th Judicial Circuit Court a petition for compulsory liquidation of LUBI. The court granted the petition and CBL contracted independent liquidators to carry out the exercise. The exercise continued with the central bank assuming responsibility for the remaining phase. The liquidation exercise, which begun in 2004 officially ended on September 30, 2008. Unclaimed funds are still being paid to depositors and other creditors in line with section 66 of the New Financial Institution Act of 1999.

The Liberian Trading and Development Bank Limited (TRADEVCO) was established in 1954. It was a subsidiary of Banco di Credito Finanziaro, Mediobanca, Milan, Italy, and one of the oldest foreign banks. The bank closed operations on June 3, 2003 due to the 2003 civil crisis in Monrovia and remained closed without authorisation despite CBL's directive for all banks to reopen after the civil war. In December 2003, TRADEVCO submitted a Board resolution along with a liquidation plan requesting statutory approval of CBL for voluntary liquidation, citing unfavourable climate condition for its banking operations. The CBL granted the request for voluntary liquidation subject to TRADEVCO's ability to pay all depositors and other creditors. An MOU was signed in this regard on September 27, 2004, and TRADEVCO paid 98 percent of its deposit and other creditor liabilities. The remaining 2 percent liabilities was handed over to the CBL. CBL is continuing the voluntary liquidation exercise until the statutory limit is reached.

The Monrovia Banking Corporation was granted an operating license by the erstwhile National Bank of Liberia (NBL), now CBL in October 1989, under the 1974 Financial Institution Act (FIA). The bank was forced to close its doors in mid-1990 due to the civil war but re-opened in June 1991. The bank became insolvent upon re-opening, as its capital was completely impaired due to accumulated losses. Deposit run on the bank created liquidity squeeze, which caused a protest by depositors. On February 21, 1995, the NBL suspended the license of Monrovia Banking Corporation, possessed it, and made payments to 497 savings account and 21 checking account holders amounting to LRD3,316,780 and LRD769,010, respectively. After due diligence was done on the bank, the bank's request to voluntarily continue with the liquidation was granted. The bank paid a further 22 depositors totaling LRD 997,800.95. Over 95 percent of all depositors and other creditors of the bank were paid. In 1999, a new Financial Institution Act was enacted, but the Monrovia Banking Corporation could not comply with the requirements of this Act. As such, the bank was not granted an operating license under the new Act by CBL. Amounts sufficient to cover all deposits and other liabilities were blocked in an escrow account maintained at the CBL. However, the liquidation of the bank was still ongoing until the statutory limitation period ended even though, for more than five years now no one has made a claim against the bank.

The Bank of Liberia (BoL) was established in 1954 as the first Liberian indigenous bank with 100 percent Liberian ownership. The bank operated until the military coup in April 1980 when it began to experience financial difficulties and was later seized by the then NBL in March 1981. Prior to the seizure, the bank was financially unsound, caused largely by insider lending without adequate collateral and documentation. Also, most of the debtors left the country after the military coup. Despite a substantial financial support extended by central bank, the bank failed to remedy its deteriorating condition. A Decree by the military government authorising the liquidation of the bank and requiring depositors to be paid in priority to other creditors was issued on June 11, 1981. The NBL paid depositors and other creditors from its own coffers since BoL reserves were not sufficient to cover all of its liabilities. The liquidation has been concluded, and the statute of limitation regarding the settlement of claims on the bank has lapsed. Major portion of the collateral held for the remaining loans granted by the bank were lost to the civil crisis. PKF Liberia was commissioned to audit the liquidation process in anticipation of closing the process legally. Liquidation statement has been prepared by the auditors and is in final stages for review prior to submission to the Court to bring the matter to close. An audit report is being finalised for removal of BoL's name from the list of institutions.

The Bank of Credit and Commerce International (BCCI) Liberia Limited was granted license on September 15, 1979 by the NBL as a subsidiary of BCCI International, having its registration office in Grand Cayman, Cayman Islands. The bank closed its doors to the public on July 2, 1990 due to the collapse of BCCI Worldwide, which affected all of its affiliate and subsidiary institutions. The worldwide collapse of the bank was among other things influenced by its negative net worth of about US$7 billion, with losses estimated at about US$12 billion. In addition, there were numerous frauds and financial irregularities, and the bank came under international investigation. All of the above problems coupled with the Liberian civil crises contributed to the bank's failure. NBL filed a petition to the court for compulsory liquidation of the bank, which was not contested by the shareholders. The management of the bank took away foreign currency overseas making it difficult to pay foreign currency claims. NBL commenced payment of depositors' claim in Liberian dollars in July 1993. External Liquidators are still holding unto overseas funds taken away by the bank's management. The CBL, through the Legal Division, is in contact with the overseas official liquidators to ensure settlement of

US dollar depositors' claims. The bank is still in liquidation although the statute of limitation to pay claims has lapsed.

Banks that closed down without supervisory intervention included the Ducor Trade & Commerce Bank, Inc. (DUTCH Bank), EURO bank, The First International Merchant Bank (FIM Bank), FTIBC and Meridien BIAO Bank Liberia Limited (MBBLL). For these groups of banks, assets were virtually non-existent. Liabilities, including deposits could not be identified because they were not listed. All the banks in this group, except for MBBLL were notified about their nullification. However, this did not satisfy legal requirements.

The DUTCH Bank was approved and licensed on June 4, 1994. The Bank experienced accumulated losses leading to huge impairment of the bank's capital during the civil conflicts in the country. An on-site examination conducted in 1997 confirmed the bank's liquidity solvency problems, which were attributed to insider lending. In essence, the bank had no physical assets. It extended credit to insiders amounting to LRD2.5 million without adequate collateral for foreclosure in the event of default. The bank final assets quality was classified as loss as revealed by the 1997 examination. The bank is indebted to the CBL to the amount of LRD782,008 and was among four of the abandoned banks for which the CBL petitioned the Civil Law Court in March 2007 for de-listing. Following the inability of the bank's shareholders to inject additional capital and failure of efforts to attract new investors, the DUTCH bank was closed down in 2000.

Meridian Bank Liberia Limited (MBBLL) was licensed in 1985. It was a subsidiary of Meridien BIAO Bank International with connection to Meridien BIAO Bank SA. The collapse of the international entity and the Meridien BIAO Bank SA created more problems for the subsidiary in addition to mismanagement of the subsidiary. On January 27, 1997, the erstwhile NBL suspended the licence of MBBLL and subsequently placed it under seizure. At the time MBBLL was seized, it owed its parent and defunct company a little over US$20 million.

The FIM Bank was licensed on June 9, 1989. Prior to 1990, the bank was in compliance and had met the authorised minimum capital requirement as required by the financial institution Act of 1974. The bank came under the enhanced supervisory radar of the NBL after the first civil war in 1990. Due to the unsoundness of its condition, particularly the impairment of its capital as mentioned in the notice of seizure, on January 24, 1992, the erstwhile NBL seized and suspended the licence of the bank. After several failed attempts to resuscitate the bank, in April 1992 the NBL filed a petition for a compulsory liquidation of the bank. While there was no evidence to show that the liquidation was approved by the court, according to available records, a stratified liquidation payout plan was drawn by the liquidation department of the central bank. The document showed total customers' deposits of LRD 487,364, of which a liquidation proceeds of LRD127,709 was to be paid out to about 200 depositors excluding related parties. There are also no records to show whether the payments were made. The bank was among four abandoned banks for which the CBL petitioned the civil law court in March 2007 for de-listing.

The First United American Bank (FUAB) was approved and licensed on June 27, 1989 and had its head offices in Monrovia. Before the war, the bank was rated satisfactory and compliant with the requirements of the Finance Institution Act (FIA) of 1974. In terms of ownership structure, one person owned 85.0 percent of the bank's 150,000 shares, and the president of the bank owned the remaining 15.0 percent. Barely six (6) months in operation, the Liberia civil crisis started. The challenges of the bank were uncovered following the December 31, 1992 examination. The report revealed the lack of formal policies and direction from the directorate during its three years of operations; deterioration in asset quality (primarily earning assets); poor liquidity, impaired capital and earnings and insider abuses. Assets quality problems were largely due to lending heavily to the principal owner of the bank. As such, the bank's capital was impaired. The initial start-up capital of US$1.5 million was eroded to negative LRD4.3 million resulting principally from accumulated losses of LRD3.5 million as at December 31, 1992 and losses of LRD 2.3 million. The challenges of the bank were further aggravated when its properties and records were looted during the Liberian civil unrest. FUAB was evicted from its premises because it could no longer meet up with its annual lease payment of US$20,000. The CBL had several meetings with the principal actor and majority shareholder of the bank, who requested that the bank be resuscitated. There were no records of loans or collaterals. The loans possibly required 100 percent provision due to the length of time the bank has been closed. FUAB is currently indebted to the CBL in the amount of LRD962,566.16. FUAB was one of the four abandoned banks for which the CBL petitioned the civil law court in March 2007 for de-listing.

EUROBANK Liberia Limited (EUROBANK) was licensed in 1988. Before the civil war, the new bank was relatively in good condition and compliant with the financial institution Act (FIA) of 1974. In 1993, NBL reviewed matters relating to EUROBANK and took the necessary measures to address the illiquidity and other problems faced by the bank. The NBL injected LRD 16,828,000 to help prevent the bank from collapse. The bank was deserted by its owners. The only available record on EUROBANK was an independent audit report conducted by the Cooper & Lybrand accounting firm dated December 31, 1994. The bank at the time, had total assets of LRD 42,136,218, deposit LRD 19,932,590 and capital of LRD1,049,143. The Euro bank Liberia limited had an overdraft balance amounting to LRD3,035,088 with the CBL. The CBL has not been able to locate any staff or Management team since the abandonment. The future of the bank remains in question. The bank was among four abandoned banks for which the CBL filed a petition at the civil law court in March 2007 for de-listing.

The First Commercial and Investment Bank (FCIB) was licensed on April 19, 1990 by the NBL and commenced operation on April 23, 1990. The bank ceased operations when the civil hostilities reached Monrovia in June 1990. The bank resumed operation one year later when the civil war subsided in June 1991. However, unsound banking practices characterised by related and insider transactions, poor lending administration and lack of internal control measures coupled with accumulated losses from 1997 completely eroded shareholders equity. Due to the insolvency and illiquidity of the bank, the NBL seized and suspended the bank's operation on May 8, 1998.

In the case of government or state-owned banks, which closed down as a result of the civil war and liquidity problems, the government, the major shareholder, is paying little attention to recapitalise these banks. The affected banks included: Agricultural and Cooperative Development Bank (ACDB) and National Housing & Savings Bank (NHSB).

ACDB established by an Act of Legislature was approved on November 1, 1976, to promote agricultural development in Liberia by providing specialised agricultural credits. The bank was a wholly owned Liberian institution with the Government of Liberia (GOL) being the major shareholder with a 65 percent shareholding. The bank commenced operations in 1978. At the time of its closure, ACDB had branches in seven (7) of thirteen (13) counties in Liberia. Following the change in government in 1980, the central government (GOL) and Liberia Produce Marketing Corporation (LPMC), the two major debtors of the bank, could not settle their obligations. Consequently, the bank could no longer sustain agricultural lending. In order to survive, the bank extended its activities to commercial banking in 1985. The bank's problems compounded owing to the Liberian Civil War. ACDB began to experience liquidity and capital problems and could not meet up with matured obligations. Due to these problems, it closed its doors in 1995. Moreover, the bank's premises and other assets including records and documents were vandalised and destroyed during the April 6, 1996 crisis in Monrovia. This situation caused serious difficulties in accessing documents relating to the bank until the bank was eventually closed.

An Act of Legislature established the National Housing and Savings Bank (NHSB) in 1972, with the Government as the sole shareholder. The bank was satisfactorily capitalised and met the minimum capital requirement under the Financial Institutions Act (FIA) of 1974. The bank became a matter of supervisory concern during the Liberia civil unrest, particularly the 1992 war. The bank initially closed its doors to the public after the 1990 war and reopened in 1992. Prior to the civil war, the bank had been operating at a loss, which contributed to its closure. Excessive lending activities during the time and non-payment of loans led the bank into serious liquidity problem, to the extent that it was only depending on subsidy from central government. In addition, the government paid little attention to its recapitalisation. The bank was indebted to major foreign lending institutions while GOL remained its major debtor. The last examination prior to the closure of the bank revealed total deposit liability of LRD143.1 million and total debt to NBL of LRD6.5 million. There is no court ruling mandating the closure and delisting of NHSB. Given the special nature of the defunct NHSB (i.e. being established by statute and wholly owned by the Government of Liberia), it continues to exist by law until the relevant statute is repealed.

2.3.4.1 Responses to Banking Crisis

In light of these developments, CBL resolved banking crisis/distresses by a combination of the following measures:

a) Institution of a Strategic Turn Around Plan (STAP) for compliance by distressed banks.
b) Provisional Administration to begin the process of reorganisation in line with the Financial Institutions Act of 1999.
c) Strategic Rescue Package formulated by the ailing bank and approved by the central bank.
d) Granting of statutory approval of CBL for voluntary liquidation.
e) Suspension of license of troubled banks.
f) Commissioning of audit of the ailing banks in preparation of the liquidation process and in anticipation of closing the process legally.
g) Filing a petition to the court for compulsory liquidation of failing banks.
h) Payment of depositors' claim in Liberian dollars where the distressed bank failed to do so.

2.3.4.2 Measures to prevent future bank distress

To address future distress situations, CBL has initiated a couple of measures to enhance the credit delivery process. CBL has established a Collateral Registry System to support access to credit, by keeping a register of all movable assets tendered as collaterals for accessing loan facilities in the financial industry. The credit reference system was also established to contribute to the credit risk management of commercial banks, development finance institutions and deposit-taking microfinance institutions. The launching of the Financial Sector Development Implementation Plan (FSDIP) by GoL is expected to provide a prioritised and sequenced roadmap for reforming the financial sector of Liberia over a five-year period. CBL is also working with staff from the IMF's Headquarters on finalising a Crisis Management and

Bank Resolution framework as well as the development of an Emergency Liquidity Assistance (ELA) framework.

2.3.5 Overview of Banking Crisis in Nigeria

Episodes of banking crises in Nigeria are broadly classified into six (6). First, is the colonial era that coincided with the absence of banking regulation and the emergence of indigenous banks. The first indigenous bank in Nigeria was Industrial and Commercial Bank, that was established in 1929 and failed in 1930. According to the liquidators "the paid-up share capital was 100,000 pounds, and the state of the company's record was so chaotic" (Uche, 2001). Nigerian Mercantile Bank was established in 1931 and failed in 1936. Newlyn and Rowan (1954) attributed the failure to share pushing, inability to attract deposit and capital from the public, and involvement in speculative transactions. The Penny Bank was established in 1933 and failed 1946, due to mismanagement (Ndukwe, 1992). National Bank was established in 1933 and became the first successful indigenous bank in Nigeria. In 1947, African Continental Bank and Farmers and Commercial Bank were established.

The second episode occurred after the enactment of the Banking Ordinance of 1952. Disturbed by the increasing number and failure of indigenous banks, the colonial government in 1948 appointed Mr. Paton of Bank of England to undertake a review of the Nigerian banking system with the objective of introducing banking regulation in the colony. Nigerians envisaged the potential difficulty of obtaining a banking business once Mr. Paton's recommendations come into force, and hurriedly established more banks. Between 1951 and 1952, seventeen (17) indigenous banks were established (Ogowewo and Uche, 2006). The recommendation of Paton' Commission led to the enactment of the Banking Ordinance of 1952. Between 1953 and 1954, 17 out of 21 existing indigenous banks failed.

The 1958 Banking Ordinance, which repealed the Banking Ordinance of 1952 had no effect on bank distress since it retained the 1952 minimum share capital for indigenous banks but increased that of foreign banks to £200,000. The Banking Decree of 1969 repealed the Banking Ordinance of 1958 and increased the minimum share capital of foreign banks to £750,000 and £300,000 for indigenous banks, with six (6) months compliance window. This piece of legislation predicated the distress of the only surviving indigenous bank (Agbonmagbe Bank). The bank was subsequently acquired by the Western government and the name changed to Wema Bank. From 1969 to 1980, there was no incidence of bank failure, as the government bought controlling shares in existing banks and forestall the registration of new banks.

The implementation of the Structural Adjustment Programme (SAP) of 1986 that resulted in the liberalisation of banking licenses, minimum licenses regulation and the introduction of Deposit Insurance Scheme, marked third episode. During this period (between 1985 and 1992), the number of banks increased from 40 to 120. In 1989, nine (9) banks failed, after the withdrawal of public sector deposit from the banking sector. The Nigerian Deposit Insurance established a liquidity support programme valued at Naira2.3 billion for the affected banks (Uche, 1999).

The fourth episode relates to the protracted political crises due to the annulment of the June 12, 1993 Presidential election. In 1994, Republic bank LTD and Broad Bank Ltd had their licenses suspended, while Alpha Merchant Bank, Kapital Merchant Bank, Financial Merchant bank and United Commercial Bank had their licenses revoked. CBN obtained a high court order to acquire for one Naira each four other banks; namely, ACB, National Bank of Nigeria, New

Nigerian Bank and Co-operative and Commercial Bank. The total number of institutions determined to be distressed rose from 10 to 42 excluding the four banks that had their licenses revoked. As of December 1994, non-performing loans constituted about 60.33 per cent of the total deposit of distressed banks and average 40 per cent of the entire banking industry (Uche, 1996, 1999b). The government responded swiftly by promulgating the Failed Bank (Recovery of Debts and Financial Malpractices in Bank) Decree 18 of 1994.

The Fifth episode was the banking sector consolidation exercise. On 6th July 2004, CBN announced extensive banking reform, in an attempt to resolve the distressed syndrome of the Nigerian banking sector. Increasing the minimum share capital of each bank in Nigeria to Naira25 billion from the prevailing Naira2 billion was one of the 13-point agenda on reforming the Nigerian banking system. Existing deposit money banks were given 18 months deadline, (which elapsed on December 31, 2005) to shore-up their minimum shar e capital. The reform shrank the total number of banks in Nigeria from 89 to 25, through the merger of 75 banks. The 14 banks that failed to meet the regulatory capital requirement were later acquired by other existing banks.

Finally, the global financial crises of 2008-2009 adversely affected the Nigerian banking industry. Afribank, Finbank, Intercontental bank, Oceanic bank and Union bank became perennial users of the CBN Expanded Discount Window in 2009 due to the effect of the crises. (Sanusi, 2009a). An examination of these five banks uncovered serious corporate governance lapses and excessive exposures to the oil sector and the capital market leading to huge asset impairments. Consequently, a special exercise was conducted on the other banks uncovering four additional distressed banks, Bank PHP, Equitorial Trust Bank, Spring Bank and Wema Bank. Aside removing the CEO, CBN injected N620 billion into these banks (Sanusi, 2010b). This period also saw several mergers and acquisitions in the banking sector, notably, the Ecobank-Oceanic bank in December 2011, Access bank-Intercontinental bank in December 2011, Sterling Bank Plc-Equitorial Trust Bank in August 2011, and First City Monument bank-Fin bank acquisition deals on 10th February 2012. In August 2011, Afribank, Bank PHP and Spring bank were nationalized, and their names were changed to Keystone bank, Mainstreet bank and Enterprise bank, respectively.

The exposure of banks to greater systemic and operational risks during the financial crisis was mainly attributed to the adoption of universal banking model. Hence, CBN issued a circular to review the universal banking model, changing the licensing regime of the industry and defining new banking licenses and business rules (CBN, 2010a). Subsequently, CBN redefined commercial banking activities (CBN, 2010b) and merchant banking activities (CBN, 2010c). Accordingly, CBN issued a circular (CBN, 2010d) abolishing the universal banking model, while reclassifying banks into commercial, merchant, and specialised banks (comprising non-interest, microfinance, development, and mortgage banks). With the abolition of universal banking, CBN directed banks to divest in non-banking businesses. This reform led to the introduction of mono-line banking, and Financial Holding Company (HoldCo)' to ring-fence banking business in Nigeria (CBN, 2011).

2.3.5.1 **Responses to Banking Crisis**

In light of these developments, the Central Bank of Nigeria (CBN) adopted the following frameworks in resolving banking crisis/distresses in the banking sector:

a. Provision of financial accommodation to some banks by the Nigeria Deposit Insurance Corporation.

b. Enactment of the Failed Bank Decree of 1994.
c. Prosecution of bank senior management officials and board members indicted in the failure of the banks.
d. Sale of the failed or distressed banks to new investors.
e. Revocation of licences and liquidation of some failed banks.
f. Banking sector recapitalisation programme.
g. Mergers and Acquisitions.
h. Purchased and assumed management of selected assets and liabilities of failed banks.
i. Injection of Tier II Capital in the distressed banks.
j. Established bridge banks to manage the distressed banks in the interim.
k. Granted debt forbearance for distressed banks, and
l. Established state owned Asset Management Company (AMCON) to purchase the bad debts of distressed banks.

2.3.5.2 Measures to avert future crises

The CBN focuses on risk and rule-based regulatory framework, strict enforcement of corporate governance principles in banking, zero tolerance for violation of legal and regulatory requirement, revision and updating of relevant laws to strengthen corporate governance, and introduction of flexible interest rate-based framework that made monetary policy rate an operating target. CBN's reform agenda was predicated on four (4) key pillars, which would continue to shape the framework for crisis resolution in the banking industry. These include enhancing the quality of banks, establishing financial stability, enabling healthy financial sector evolution and ensuring that the financial sector contributes to the growth of the real sector. The Bank has established Macro prudential regulation framework. Under the new framework, there is a stronger and increasing synergy between the CBN's Financial Stability Committee and the Monetary Policy Committee to ensure that monetary policy is influenced by trends in systemic risks consistent with the expanded dual objectives of monetary and financial stability. Also, the Bank adopts prudent micro and macro supervision to ensure the stability of the Nigerian financial system.

2.3.6 Overview of Banking Crisis in Sierra Leone

The banking sector in Sierra Leone witnessed a severe crisis in the early 1990s that significantly disrupted the delivery of financial services and created widespread liquidity problems. The crisis saw the collapse of four (4) banks - Bank of Credit and Commerce International (BCCI), International Bank for Trade and Industry (IBTI), Meridian Bank and First Merchant Bank.

The diagnostic studies conducted on the banking sector following the crisis revealed both specific and systemic causes. Among the systemic causes were under-capitalisation, appropriate human skills, high bad loan portfolios, high operating costs, high intermediation costs, computer-related issues, and obsolete banking legislations. The specific factors were peculiar and related to the operations of individual banks. For example, the problem of the BCCI was due to financial contagion transmitted to the bank from its parent bank in the United States. In the absence of prudential requirement limiting the bank's deposit held with its parent bank, a significant proportion of customers' deposits were held abroad. A crisis erupted when regulatory action was taken that prevented BCCI from accessing these deposits as the parent bank was in a financial crisis. Affected customers were not adequately compensated and confidence in the banking industry eroded.

Following the BCCI crisis was the International Bank for Trade and Industry (IBTI) crisis. IBTI was also foreign owned and failed because of insider dealings among executives and senior management officials. The bank was plagued by corporate governance lapses, insider trading and connected lending without due diligence leading to liquidity crisis. Another prominent Bank that failed in the country was the Meridian Bank, which was taken over by the now Union Trust Bank (UTB) in 1995. Like IBTI, Meridian Bank also failed as a result of overtrading and insider trading among executive and senior management that led to massive liquidity problems. They also had corporate governance issues and weak policy response strategies.

The First Merchant Bank failed just a few years after its establishment in 1999 and was acquired by Guarantee Trust Bank (GTB) in 2002. It was primarily established to facilitate trade and investment in the country by granting loans to private investors. However, the bank failed because of poor corporate governance and insider trading as the bank allocated the bulk of its loans to non- citizens that constituted less than 2.0 percent of the country's population. Rokel Commercial Bank (RCB) was faced with weak credit administration and asset quality challenges recording a very high nonperforming loans ratio since 2011. Significant level of loan loss impairment was made in 2013 leading to diminishing profits and capital erosion. This situation caused serious concerns to the shareholders and regulator (BSL). The interventions of the Bank of Sierra Leone were therefore very critical and timely to ensure that the bank continued as a going concern.

Sierra Leone Commercial Bank was also fraught with similar challenges of weak credit administration and poor asset quality, which culminated in huge loan impairment that eventually eroded the bank's shareholders' funds and capital base. Policy interventions by the BSL to address the crisis in the 1990s were two-fold - direct supervisory actions to address the problems of affected banks; and institutional and legislative reforms to tackle inherent structural weaknesses in the banking industry. In the wake of the crisis, the BSL provided liquidity to support the operations of IBIT. This was, however, not sufficient to prevent the collapse of the Bank, leading to its eventual liquidation. The Meridian Bank was transformed into the Union Trust Bank in 1995, which is presently completely owned by Sierra Leoneans.

Several reforms were pursued within the framework of a Structural Adjustment Programme launched in 1986, as part of the broader response to address the institutional and structural weaknesses that characterised the sector in the 1980s and early 1990s. The Bank of Sierra Leone hired the services of two international auditing firms, Price Waterhouse and Coopers & Lybrand, now merged into PricewaterhouseCoopers, to undertake a diagnostic study of the banking industry. The outcome of this study formed the basis for the institutional and legislative reforms undertaken by the BSL in the years that ensued. The supervisory arm of the Bank of Sierra Leone was strengthened in 1993/94, with the Supervision Division upgraded to the Banking Supervision Department. The Bank of Sierra Leone and Banking Acts were enacted in 2000, which provided the legislative provisions for the implementation of wide-ranging prudential requirements to ensure effective regulation and supervision of financial institutions.

Prior to the enactment of the Banking Act 2000, the 1970 Banking Act provided the legislative framework to regulate and supervise banks in Sierra Leone. This 1970 Act was partly amended in 1978. The National Provisional Ruling Council (NPRC) issued a Banking (Amendment) Decree in 1996. Several weaknesses were identified in the 1970 Banking Act, including the absence of a capital adequacy requirement apart from the minimum paid-up capital requirements of SLL 400,000 and SLL 800,000 for locally incorporated and foreign banks respectively. The capital requirement was increased to SLL 300 million and SLL 600 million for local and foreign banks respectively under the Banking (Amendment) Decree of 1996. In the banking Act 2000, commercial banks were required to maintain capital adequacy ratio of 15.0 percent compared to 6.0 percent prescribed in the Banking (Amendment) Decree 1996. The Banking Regulations 2003 were issued to ensure effective implementation of the provisions of the Banking Act 2000. The minimum paid-up capital was increased to SLL 800,000,000 and SLL 1,600,000,000 for local banks and foreign banks incorporated in Sierra Leone. The regulations introduced prudential requirements relating to capital adequacy, net open position limits, local assets ratio, cash reserve and liquidity ratios, credit exposure limits and provisioning for debts. Due partly to the experience of the collapse of BCCI as a result of contagion effects, the BSL introduced a local assets ratio of 75.0 percent, ensuring that licensed financial institutions maintain assets in Sierra Leone amounting to not less than 75.0 percent of liabilities payable.

An additional legislative review undertaken by the BSL was the enactment of Other Financial Services Act 2001 to ensure effective supervision of non-bank financial institutions and stem potential systemic crisis of the institutions. The year 2005 witnessed the end of the two-tier system in the minimum paid up capital requirement, as both local and foreign banks incorporated in Sierra Leone were required to maintain a minimum paid up capital of SLL 15 billion by end 2009. The new capital requirement was phased over a five (5) year period (2005-2009). The capital requirement was further increased to SLL 30 billion to be maintained by end December 2014. The prudential requirements were further reviewed in 2012, with the introduction of a Local Liquid Asset Ratio (LLAR) to ensure that a significant amount of deposits obligations is covered in the event of a crisis. Commercial banks were required to maintain not less than 75.0 percent of total liquid assets in Sierra Leone.

To address the problems of RCB, the BSL in collaboration with the Ministry of Finance and Economic Development (MoFED), National Commission for Privatisation (NCP) dissolved the then Board and appointed a five (5) man Oversight Committee and a three (3) man Caretaker Management Team for a period of one (1) year starting January 2015.The Committee assumed the functions of the Board of Directors of RCB and where necessary acted beyond the normal functions of the said Board by undertaking additional activities The bank was recapitalised in 2015 by the majority shareholders, although new capital was further eroded by additional provisioning as a result of continuous deterioration of credit assets. To improve the recovery of bad debts, three (3) main debt recovery strategies were instituted by the bank-Legal action, Parliamentary intervention and court action.

In a similar manner, the Managing and Deputy Managing Directors of SLCB were relieved of their duties in 2013 and replaced by a caretaker team. The BSL working closely with MoFED and NCP took decisive actions to ring-fence the bank’s financial position to prevent it from collapse and ensured the continual improvement of the bank’s governance framework and overall performance. A resolution regime was instituted, and the Board was dissolved, and replaced by an Oversight Committee comprising of representatives from the BSL, MoFED and NCP. The National Social Security and Insurance Trust (NASSIT) took up some of the shares of the bank and appointed a member in the Oversight Committee. The tenure of the Oversight Committee, which expired in April 2016 was extended to April 2017.

In response to the financial distress of both RCB and SLCB, the World Bank and IMF commissioned a diagnostic study of these banks to ascertain the causes of the problem, assess the financial and operational self-sufficiency of the banks for appropriate remedial actions. The study was recently concluded by an international auditing firm, Ernst and Young. The BSL is looking forward to the outcome of the study to commence appropriate supervisory actions.

2.3.6.1 Responses to Banking Crisis

In light of these developments, BSL adopted the following measures in resolving banking crisis/distresses:

I. Removal of the Managing Director and Deputy Managing Director of an ailing bank and replaced it with a caretaker team.
II. Ring-fenced the financial position of a troubled bank to prevent it from any collapse, while ensuring that the bank's governance framework and overall performance improves to a safe level.
III. Instituted a resolution regime and dissolved the Board of Directors of a distressed bank, replacing it with an Oversight Committee that constituted representatives from the BSL, MoFED and NCP.
IV. Provided liquidity to support the operations of some troubled banks.
V. Strengthened the supervisory arm of BSL in 1993/94 by upgrading the Supervision Division to a full-fledged department (the Banking Supervision Department).
VI. Enacted Banking Act of 2000 which provided the legislative provisions for the implementation of wide-ranging prudential requirements to ensure effective regulation and supervision of financial institutions.
VII. Enacted Other Financial Services Act of 2001 to ensure effective supervision of non-bank financial institutions and stem potential systemic crisis from these institutions.

2.3.6.2 Strategies to avert future distress

The Banking Supervision Department is currently implementing an enhanced IT platform known as Valtech Regulatory Compliance and Supervisory System (vRegCoSS) to ensure effective monitoring and timely identification of early warning signals in the operations of commercial banks. This system allows for more accurate reporting of information and automatic implementation of sanctions/penalties to enforce compliance with prudential requirements. In addition to the usual on-site examination and off-site surveillance, follow-up examinations are routinely conducted to ensure prompt implementation of supervisory actions by commercial banks. The Department has enhanced its licensing requirements for financial institutions, including ensuring that 'fit-and-proper persons' tests are conducted on senior management of financial institutions to ensure effective governance oversight. The Department regularly engages the management of these banks to ensure timely implementation of directives and address potential challenges confronting their operations. To further ensure that banks have adequate capital to absorb shocks, the BSL is currently considering proposals for further increases in the minimum paid up capital of banks.

The BSL has requested for technical assistance from the IMF to enhance the capacity of staff of the Banking Supervision Department on a range of supervisory issues, including risk-based approach to supervision. The resident Technical Assistant will commence training by mid-February 2017, which will pave the way for migration from compliance-based to risk based approach to supervision. The Banking Supervision Department is currently developing a bank resolution manual to clearly map out the supervisory actions to be taken to address potential crisis in the banking industry.

3 Data and Methodology

The study employed the survey-based methodology. Primary data for the analysis was collated through questionnaires sent to Member States' central banks. The purposive sampling technique was used for this study because in the WAMZ, central banks of Member States are the competent regulatory authorities responsible for resolving banking crises. Hence, the self-administered questionnaire, based on the various provision of the Key Attributes (KA), was sent via email using, the platform of the College of Supervisors of the WAMZ, to the central banks of The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone.

The analysis seeks to establish the extent to which the practices employed in resolving banks in the countries of the Zone conforms with the globally accepted standard, the KAs. Thus, the study benchmarks the crisis resolution frameworks of Member States of the WAMZ against the KA which covers: scope of resolution; resolution authority; resolution powers; set-off, netting, collaterisation, segregation of client assets; safeguards; and funding of institutions in resolution. The rest are legal framework; Crisis Management Groups; Institution-specific cross-border cooperation; Resolvability assessments; Recovery and resolution planning; and access to information and its sharing.

The questionnaire reflects all the essential criteria of each KA. Hence, we begin the analysis by comprehensively outlining the key provisions under each of the 12 KAs; and thereafter consider the responses alongside each essential criterion. It must be noted, however, that the study does not seek to assess the concerned jurisdictions' compliance with the Key Attributes. The study is a desk and off-site analysis of self-administered responses from Member States, and hence lacks the ability of verifying these responses, proffering judgement and assigning scores based on the four-grade assessment scale recommended for assessing compliance with the KAs.

4 Outcome of Analysis

As noted earlier, we analyse the crisis resolution frameworks of the countries of the WAMZ in relation to the twelve (12) KAs based on responses to questionnaires administered in 2016. This approach is undertaken with the aim of identifying the areas where country practices differ from or fall short of the global standard and identifying areas that need to be strengthened to enable seamless resolution of banking crises, should they occur. Given the shared interest to integrate and the increasing activities of cross-border banking in the Zone with its concomitant risk of contagion, the approach would not only assist in having a harmonised or uniform national resolution frameworks but also inform the development of a comprehensive regional resolution framework for the Zone. Besides, this study would inform Member States to start thinking of how to resolve distressed cross-border banks. Furthermore, the study would assist Member States improve their respective national resolution framework to reflect the KA as a model for financial crisis resolution procedures in the Zone. The details of each KA and practices in the Zone as observed from the responses to the questionnaires are presented in the subsequent sections.

4.1 Scope

Scope is the first of the 12 Key Attributes, and it asserts that regimes should clearly state in a transparent manner all institutions, including systemically important financial institutions (SIFIs) and other critical related entities - holding companies, foreign branches etc. -, covered within the resolution regime. These institutions should include all multilateral systems[2] among participating financial entities such as payment systems, central securities depositories (CSDs), securities settlement systems (SSSs), central counterparties (CCPs), and trade repositories (TRs).

At a minimum, the regime should require global SIFIs (G-SIFIs) to develop a recovery and resolution plan, including a group resolution plan; be regularly subjected to a resolvability assessments programme (RAP)[3]; and have specific cooperation agreement for cross-border relations.

4.1.1 Current Practices in relation to Scope in the WAMZ

The response showed that most Member States in the Zone have made reasonable progress in instituting these features as highlighted in their legal frameworks. The Gambia, Ghana, Liberia and Nigeria have established special resolution regime with clear scope of operations for the banking industry. Of these four countries, The Gambia and Ghana have scope for cross-border banks with holding companies. Apart from The Gambia, whose regime follows the general bankruptcy and insolvency procedures, the scope of resolving banks in all the other jurisdictions is different from the national bankruptcy and insolvency procedures. On the other hand, Guinea and Sierra Leone seems not to have developed a special resolution regime for financial institutions within their jurisdictions, which suggests that the management of such crisis could be on ad hoc basis. (see Table 1).

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[2] This refers to institutions used for the purpose of recording, clearing, or settlement of payments, securities, derivatives, or financial obligation (see 'Key Attributes of Effective Resolution Regimes for Financial Institutions, 2014)

[3] RAP is the regular "evaluation of the feasibility of resolution strategies and their credibility in light of the likely impact of the firm's failure on the financial system and the overall economy". This is expected to be carried out by senior policy makers especially as it relates to systemically important institutions.

Table 1: Special Resolution and Scope of Operations

	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
1.0 The Scope of Resolution Regime						
1.1 Special resolution regime for banking	YES	YES	NO	YES	YES	NO
1.2 Application of the resolution						
a) *local banks*	YES	YES	N/A	YES	YES	N/A[4]
b) *cross-border banks with holding company structure*	YES	YES	N/A	NO	NO	N/A
1.3 Regime different from company bankruptcy/insolvency procedure	NO	YES	YES	YES	YES	YES

Source: Member States of the WAMZ

4.2 Resolution Authority

The second KA expects the regime to have a responsible authority or authorities (in which case mandates, roles and responsibilities must be clearly delineated) for carrying out the resolution process. It asserts the need to have a lead authority to coordinate the resolution of an entity in the same group within a single jurisdiction, which requires different resolution authorities to resolve it. The overriding objective and function of the resolution authority should be the promotion of financial stability and protection of value within the financial system. Also, the regime should allow the resolution authority to cooperate with other jurisdictions resolution authorities. The fifth essential criterion requires operational independence for the resolution authority. The next seeks protection for the resolution authority and its staff against liability for actions and inactions in the discharge of their duties; and finally have unfettered access to banks for purposes of resolution planning and carrying out resolution measures.

4.2.1 Current Practices in relation to Resolution in the WAMZ

According to the survey results, the legal frameworks of most countries in the WAMZ have designated the central bank as the lead and sole authority responsible for the administration of the resolution process except for Guinea. In Nigeria, CBN leads the resolution process, collaborating with National Deposit Insurance Corporation (NDIC), the manager of the deposit protection scheme. In line with the recommendation of the KA, all countries in the Zone in terms of the broad objectives and functions of their resolution authority, seeks to achieve financial stability and ensure the continuity of essential financial services during a resolution process. Except in Sierra Leone, where such protection clause is not expressly stated in its legal framework, all WAMZ Member States as well seeks to protect the interest of depositors and investors in a resolution scenario. On avoiding value destruction and minimising cost of resolution and losses to creditors when resolving a bank, apart from Nigeria and Ghana (no response) all Member States answered in the affirmative. It can be inferred from responses to the questionnaires that while The Gambia, Ghana, Nigeria and Sierra Leone made no provisions for cross-border implications of their resolution process, their regime allows the resolution authorities to enter into agreement with authorities in other jurisdictions. In contrast, Guinea and Liberia consider the impact of their resolution actions on the financial stability of other jurisdictions despite not having the powers to enter into agreement with resolution authorities of other jurisdictions (see Table 2).

One of the essential criteria that guarantees the independence of the resolution authority relates to their expertise, resources and operational capacity to resolve banks. Only The Gambia and

[4] For the purpose of this study, N/A in the tables denotes not applicable

Nigeria answered in the affirmative that they have the power to resolve banks including large banks with complex structures. Besides, the legal frameworks of Member States provide specific conditions that guarantees the independence of the central banks including tenure of office of the Governor. Also, except Guinea and Liberia, respondents indicated that their regime has explicit provision that protect staff against liabilities in the course of discharging their duties. Concerning the last essential criteria, respondents apart from Guinea submitted that for purposes of resolution planning and implementation of resolution measures, their legal regimes grants them unrestricted access to the premises of banks.

Table 2: Resolution Authority

2.0 Resolution Authority	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
2.1 Exercise of resolution powers by designated Admin Authority	YES	YES	NO	YES	YES	YES
2.2 Resolution Authority same as Central Bank	YES	YES	N/A	YES	YES	YES
2.3 Lead Resolution Authority if more than one	N/A	N/A	N/A	N/A	YES	NO
2.5 Objectives and functions of Resolution Authority						
a) *Pursue financial stability and ensure continuity of essential financial services*	YES	YES	YES	YES	YES	YES
b) *Protect depositors and investors*	YES	YES	YES	YES	YES	NO
c) *Avoid value destruction and minimise costs of resolution and losses to creditors*	YES		YES	YES	NO	YES
d) *Consider impact of its resolution actions on financial stability in other jurisdictions*	NO		YES	YES	NO	NO
2.6 Power to enter into agreements with resolution authorities of other jurisdictions	YES	YES	N/A	NO	YES	YES
2.7 Expertise, resources and operational capacity to implement resolution measures for large banks with complex structures	YES	NO	N/A	NO	YES	NO
2.8 Accountability of the resolution authority (Government or Public)						
a) *Government*	YES	NO	N/A	YES	YES	NO
b) *Public*	NO	NO	N/A	YES	NO	YES
c) *Others*	NO	YES	N/A	NO	NO	NO
2.9 Protection of staff against liability for actions taken and omissions made during discharge of duties in good faith	YES	YES	N/A	NO	YES	YES
2.10 Unimpeded access to banks for purposes of resolution planning and the preparation and implementation of resolution measures	YES	YES	N/A	YES	YES	YES

Source: Member States of the WAMZ

4.3 Resolution Powers

This KA begins with the requirement for entry into resolution, which is the point of non or likely non-viability of a banks; and continues by enumerating the broad range of resolution powers available to the resolution authority, including the power to remove and replace directors and senior management, appoint administrator, operate and resolve banks among others. The rest include: ensuring business continuity; overriding shareholders' right; setting-up a temporary bridge bank to oversee failed banks; establishing a different asset management vehicle; and triggering bail-in option, among others. As part of the essential criteria, the KA further explain in details requirements under transfer of assets and liabilities; bride institutions; bail-in; and the legal and operational capacity for exercising resolution powers *(see the KA in reference for more)*.

4.3.1 Current Practices in Relation to Resolution Powers in the WAMZ

Based on the responses, the practices in most countries of the WAMZ generally conform with the expectation of this KA. In the WAMZ, the parent Banking Acts gives Resolution Authorities the power to remove and replace top management of financial institutions that are in crisis; and except in Liberia, the power to recover monies and other assets. All the countries in the WAMZ have empowered the Resolution Authorities to appoint an Administrator to control the institution, power to determine contract and manage the assets of the institution.

As regard the power to ensure the continuity of the business of firms in resolution, override the rights of shareholders and allow for merger, acquisition and sale of business, only Liberia and Sierra Leone are yet to include such clause. With the exception of Liberia, resolution authorities in the WAMZ could transfer or sell assets and liabilities of an institution going through resolution to a solvent third party. Available data also showed that resolution authorities in the WAMZ have the power to carry out bail-in to ensure business continue except Liberia and Sierra Leone that are yet to include such clause.

Other attributes, which are germane for an effective resolution authority such as the power to initiate resolution process, power to stay on creditor action, effect the closure and orderly wind-down of an institution, among others have included in the existing resolution procedures in the WAMZ's countries except in few instances where some countries may require updating (see Table 3).

Table 3: Resolution Powers

3.0 Resolution Powers	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
3.1 General Powers						
a) Remove and replace the Board and Senior Management	YES	YES	YES	YES	YES	YES
b) Recover monies and other assets	YES	YES	YES	NO	YES	YES
c) Appoint an administrator to take control of and manage	YES	YES	YES	YES	YES	YES
d) Powers to terminate contracts, continue or assign contracts, purchase or sell assets, write down debt and take any other action necessary	YES	YES	YES	YES	YES	YES
e) Ensure continuity of essential services and functions	NO	YES	YES	NO	YES	NO
f) Ensure that the residual entity in resolution can temporarily provide such essential services to a successor or an acquiring entity	YES	YES	YES	NO	YES	NO
g) Override rights of shareholders of the firm in resolution, including requirements for approval by shareholders of particular transactions	YES	YES	YES	NO	YES	NO
h) Permit a merger, acquisition, sale of substantial business operations, recapitalisation or other measures to restructure and dispose of the firm's business or its liabilities and assets	YES	YES	YES	YES	YES	YES
i) Transfer or sell assets and liabilities, legal rights and obligations, including deposit liabilities and ownership in shares, to a solvent third party	YES	YES	YES	NO	YES	YES
j) Establish a temporary bridge institution to take over and continue operating certain critical functions and viable operations of a failed firm	YES	YES	YES	NO	YES	NO
k) Establish a separate asset management vehicle and transfer to the vehicle for management and rundown non-performing loans or difficult-to-value assets	YES	YES	YES	NO	YES	NO
l) Carry out bail-in within resolution for continuity of essential functions	YES	YES	YES	NO	YES	NO
m) Temporarily stay the exercise of early termination rights that may otherwise be triggered upon entry of a firm into resolution	YES	YES	YES	NO	NO	NO
n) Impose a moratorium with a suspension of payments to unsecured creditors and customers	YES	YES	YES	YES	NO	NO
o) Stay on creditor actions but enforcement of eligible netting and collateral agreements	YES	YES	YES	NO	NO	NO
p) Effect the closure and orderly wind-down (liquidation) of the whole or part of a failing firm	YES	YES	YES	YES	YES	NO

Source: Member States of the WAMZ

4.4 Set-Off, Netting, Collateralisation, Segregation of Client Assets

KA 4 requires regimes to institute clear, transparent and enforceable norms to govern set-off rights, contractual netting and collateralisation agreements as well as client assets segregation when resolving institutions. For effective implementation of the resolution programme, the framework should ensure that no counterparties of a bank in resolution can exercise contractual acceleration of early termination rights provided the substantive obligations under the contract is maintained.

The resolution authority should be empowered to temporarily stay such action of contractual acceleration or early termination rights in case it is allowed in the enabling laws. Among other conditions, such stay should in accordance with Annex 5 on conditions for a temporary[5] stay be time bound. Adhering to these conditions would ensure that the safety and orderly operations of exchanges and other financial markets institutions are not compromised.

4.4.1 Current Practices in Relation to Set-Off, Netting, Collateralisation, Segregation of Client Asset in the WAMZ

This KA remains one of the least catered for by the legal frameworks of WAMZ Member States. Apart from Ghana, no Member States has made provision on this KA when resolving failed banks. The existing framework in Ghana provides for a transparent and enforceable sets of laws on the set-off rights, contractual netting and collateralisation agreements and the segregation of client assets. It, however, allows counterparty(ies) of a financial institution in resolution to trigger statutory or contractual set-off rights. In other Member States of the WAMZ, these laws are not clearly or expressly stated and as such do not enable counterparty (ies) of institutions in resolution to trigger statutory or contractual set-off rights. As regards the power to stay action on the exercise of the set-off rights, contractual netting and collateralisation agreement and segregation of client assets, the Ghanaian resolution authority is so empowered while the position is not clear in other countries of the WAMZ (see Table 4).

Table 4: Setting-off, Netting, Collateralisation, and Segregation of Client Assets

4.0 Set-off, netting, collateralisation, Segregation of client assets	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
4.1 Transparent and enforceable sets of laws governing set-off rights, contractual netting and collateralisation agreements and the segregation of client assets	NO	YES	NO	NO	NO	NO
4.2 The legal framework allow the counterparty (ies) of a bank in resolution to trigger statutory or contractual set-off rights	NO	YES	NO	NO	NO	NO
4.3 The Resolution Authority have the power to “Stay” temporarily such rights in 9.2	N/A	YES	N/A	N/A	NO	NO
4.4 Resolution Authority's "Stay" Powers on set-off right						
a) The “Stay” is strictly limited in time	N/A	YES	N/A	N/A	N/A	N/A
b) The “Stay” is subject to adequate safeguards that protect the integrity of financial contracts and provide certainty to counterparties	N/A	YES	N/A	N/A	N/A	N/A
c) The “Stay” does not affect the exercise of early termination rights of a counterparty in the event of default not related to entry into resolution	N/A	N/A	N/A	N/A	N/A	N/A

Source: Member States of the WAMZ

4.5 Resolution Safeguards

Resolution safeguards require resolution regimes to recognise the hierarchy of claims principle with some flexibility to vary treatment of creditors of the same class. The deviation should be

[5] See Annex 5 on Conditions for a temporary stay of the Document on the KA.

included in the framework though with genuine reason for such action. Specifically, equity shareholders are expected to be the first set of loss absorbers, followed by subordinated debtors, before senior debt holders in the spirit of hierarchy of claims. The resolution regime should embrace the concept of no creditor worse off than in liquidation and protect top management and officers of banks from shareholders or creditors for obeying the directive of the resolution authority. The KA also requires legal remedies and judicial action, which are discussed in the analysis of the regimes of Member States below.

4.5.1 Current Practices in Relation to Resolution Safeguards in the WAMZ

All Member States of the WAMZ affirmed adherence to the hierarchy of claim principle stating that their parent legislation place equity holders as first loss absorber, followed by subordinated debts and senior debt holders. Regarding Creditors' right to compensation where they did not receive at a minimum what they would have received under liquidation, only The Gambia made such provisions. The legislations in The Gambia, Ghana and Nigeria protect directors and other officers of an institution from possible lawsuits from shareholders or creditors even if they disclose private information about them in cooperating with resolution authority during a resolution exercise.

Table 5: Resolution Safeguards

5.0 Resolution Safeguards	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
Respect of creditor hierarchy and "no creditors worse off" principle						
5.1 Equity absorbing losses first, and no loss imposed on senior debt holders until subordinated debt has been written-off	YES	YES	YES	YES	YES	N/A
5.2 Creditors' right to compensation where they do not receive at a minimum what they would have received in a liquidation of the firm under the applicable insolvency regime	YES	NO	N/A	NO	NO	N/A
5.3 Protection of directors and officers of the bank under resolution for actions taken when complying with decisions of the Resolution Authority	YES	YES	N/A	NO	YES	N/A
Legal remedies and judicial action						
5.4 Court order required for the application of resolution measures	YES	NO	YES	YES	YES	NO
5.5 Judicial actions could constrain or reversal measures taken by the Resolution Authority acting within their legal powers and in good faith	YES	NO	N/A	NO	YES	NO
5.6 Legal framework provide for redress by awarding compensation for action taken the Resolution Authority deemed not to be in good faith	NO	YES	N/A	NO	NO	NO
5.7 Allow temporary exemptions from disclosure requirements or a postponement of disclosures required by the bank where disclosures could affect the successful implementation of resolution measures	NO	YES	N/A	YES	YES	NO

Source: Member States of the WAMZ

Apart from Ghana and Sierra Leone, court order is required in other Member States before resolution measures can be triggered. In Ghana, aggrieved individuals are allowed to seek redress in court while the position is not clear in other jurisdictions. Countries like Ghana, Liberia and Nigeria also provides for a temporary exemption from disclosure, particularly where it is deemed that such could impede the success of the resolution process (see Table 5).

4.6 Funding of Firms in Resolution

The KA recommends that adequate provision should be in place to ensure that the resolution process does not constrain authorities to rely on public ownership or bailout funds. In this light, any temporary fund expended to maintain essential functions during the resolution process, the regime should allow for its recovery possibly from shareholders, unsecured creditors or the financial system as the case may suggest. The establishment of a privately owned deposit insurance or resolution fund with an inbuilt mechanism of recovering its cost of financing resolution programme from the industry is required in every jurisdiction.

It is pertinent that the regime stipulates stringent conditions on temporary funding in order to minimise moral hazard. Where the legal framework allows authorities to place a failed bank under temporary public ownership awaiting potential suitors, provision should also be made to recover any loss incurred from unsecured creditors or, if necessary, from the entire banking system.

4.6.1 Current Practices in Relation to Funding of Firms in Resolution in the WAMZ

Most countries in the WAMZ rely on the use of public ownership and bailout fund in managing their resolution process. As such, there are no provisions to recover such fund from the shareholders or creditors. There are no privately owned deposit insurance or resolution funds in most Member States as against the recommendation of the KA. Ghana and Nigeria, however, have public deposit insurance schemes with embedded modalities for resolving banks. Of the two countries, Nigeria reported that its regime has a mechanism for recovering the cost of providing temporary financing for the resolution of failed banks from the industry.

On the two (2) conditions for avoiding moral hazards concerning providing guidance on temporary financing, responses were mixed for most of the Countries, except Guinea and Sierra Leone, which had no such provisions. While The Gambia, Liberia and Nigeria responded in the affirmative that their regimes have provisions that determine whether temporary funding would foster financial stability, and allow the objectives of an orderly resolution to be achieved, and that private funding sources have been exhausted or incapable of achieving these objectives, they responded 'no' to the provision of allocating losses to equity holders, and residual costs to unsecured and uninsured creditors and the industry through ex-post assessments, insurance premium or other mechanism.

Ghana's regime was contrary – "no" for the first provision and "yes" for the second. From the response, all Member States except Liberia admitted that their laws allow for temporal placement of institutions undergoing resolution under public ownership and control while seeking a permanent solution as regards its existence. However, only the legal frameworks of The Gambia and Sierra Leone allows the state to recover losses incurred from either unsecured creditors, or the wider financial system if necessary (see Table 6).

Table 6: Funding of Banks in Resolution

6.0 Funding of banks in resolution	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
6.1 Regulations or policies to limit the reliance on public ownership or bail-out funds as a means of resolving failed banks	NO	YES	NO	NO	NO	NO
6.2 Provisions to recover any losses incurred from shareholders and unsecured creditors where temporary sources of funding were utilized by the Resolution Authority to maintain essential functions	NO	YES	N/A	NO	NO	NO
6.3 Presence of privately-financed deposit insurance or resolution funds in your jurisdiction	NO	NO	NO	NO	NO	NO
6.4 Funding mechanism in place for ex post recovery from the industry of the costs of providing temporary financing to facilitate the resolution of a failed bank	NO	NO	N/A	NO	YES	NO
6.5 Conditions are adhered to by the Resolution Authority in considering funding needs of failed banks						
a) Resolution Authority makes a determination that private sources of funding have been exhausted and that the provision of temporary funding is necessary	YES	NO	N/A	YES	YES	N/S[6]
b) Resolution Authority allocate, as appropriate, losses and residual costs to equity holders, to unsecured and uninsured creditors and the industry at large	NO	YES	N/A	NO	NO	N/S
6.6 Power to place a failed bank under temporary public ownership and control in order to continue critical operations, while seeking to arrange a permanent solution	YES	YES	YES	NO	YES	YES
6.7 Provision to recover any losses incurred by the State from unsecured creditors or, if necessary, the financial system at large	YES	N/S	N/A	NO	NO	YES

Source: Member States of the WAMZ

4.7 Legal Framework Conditions for Cross-Border Cooperation

This KA encourages resolution authorities as part of its mandate to develop relationship and cooperate with foreign resolution authorities for resolution of failed institutions. It also states that, the laws should not allow an automatic action on or resolution of a domestic institution to be triggered due to a an intervention or resolution action in another jurisdiction, particularly when there is no effective international cooperation and the jurisdiction reserve national discretion to initiate actions necessary to promote domestic financial stability. To this end, the KA asserts the necessity of considering the impact of one's discretionary national action on the stability of the financial system of other jurisdictions.

The resolution authority should be empowered to have jurisdiction over the branches of foreign institutions and be able to support the foreign resolution authority in its resolution efforts (such as helping to effect the transfer of asset located in its jurisdiction to a bridge institution established by the foreign home authority), or where necessary take action on an institution if its home authority is lax in taking action on it to ensure the stability of the local financial system. Where such national discretionary action is taken, the foreign home authority must be given prior notification and consulted. As part of the essential criteria, the legislation should

[6] For purposes of this study, N/S means No response

ensure fair treatment of creditors and ranking in insolvency should be transparent and disclosed to all relevant stakeholders.

Both the local and foreign resolution authorities should design a common operational platform to fast-track the resolution process. However, where the legislation in the various jurisdiction differs, there should be mutual understanding of the processes that operate in each other jurisdiction. Subject to the principle of confidentiality, the laws should enable the resolution authorities to share information that could be beneficial to the resolution process and consequently allow for the implementation of a coordinated resolution.

4.7.1 Current Practices in Relation to Legal Framework Conditions for Cross-Border Cooperation in the WAMZ

Evidence from Member States of the WAMZ showed that there is an urgent need to enhance the legal framework conditions for cross-border cooperation particularly in Guinea and Liberia, where such provisions appear to be absent in their legislations. Apart from Nigeria which has parent banks with cross-border presence, the other Member States only host foreign bank subsidiaries, and the parent acts requires such banks to be incorporated as a bank in the host jurisdiction. Hence, all foreign subsidiaries are subjected to the same resolution rules applicable to local institutions of their host. From the response, the laws in the Gambia, Ghana, Nigeria and Sierra Leone empower their resolution authorities to achieve cooperative solutions with foreign resolution authorities. Only Nigeria and Sierra Leone allow the resolution authority to consider the implication of their discretionary resolution actions on the financial stability of other jurisdictions.

Currently, it is only in The Gambia that the law allows for an automatic action on an institution whose subsidiaries or affiliates are subjects of resolution process in foreign jurisdiction. Though not automatic, the resolution authorities in Ghana, Nigeria and Sierra Leone have powers over the local branches and subsidiaries of institutions within their jurisdictions with proper communication with the foreign resolution authorities. As regards the treatment of creditors, while there is no discrimination in other countries of the WAMZ, the laws in Ghana allows for the discrimination of creditors on the basis of their nationality, location of claims or jurisdiction where it is payable.

In Ghana, the legal framework provides for transparent and expedited processes to give effect to foreign resolution measures through a mutual recognition process. In Sierra Leone, this is achieved through the domestic resolution regime that supports and are consistent with the resolution measures taken by the foreign resolution authority. For The Gambia and Nigeria, such stipulations are not expressly stated in the enabling framework. Generally, all the countries resolution authorities except Liberia and Guinea are empowered to share information, including recovery and resolution plans (RRPs), pertaining to a bank group, individual subsidiaries or branches. They also respect the confidentiality requirements and statutory safeguards for the protection of information received from other jurisdictions (See Table 7).

Table 7: Legal Framework Conditions for Cross-Border Cooperation

7.0 Legal framework conditions for cross-border cooperation	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
7.1 Resolution Authority **empowered to achieve a cooperative solution** with foreign resolution authorities	YES	YES	N/A	NO	YES	YES
7.2 Consider the impact on financial stability in other jurisdictions when the Resolution Authority takes discretionary national action	NO	NO	N/A	NO	YES	YES
7.3 **Legal Framework allows for automatic action on a bank whose subsidiaries and affiliates in another jurisdiction** are undergoing insolvency proceedings	YES	NO	N/A	NO	NO	N/A
7.4 The Resolution Authority **have resolution powers over local branches of foreign banks**	NO	YES	N/A	N/A	N/A	YES
7.5 If YES in 12.4, does the resolution authority **give prior notification and consult the foreign resolution authority** when it intends to take action	NO	NO	N/A	N/A	N/A	YES
7.6 Legal framework discriminate against creditors on the basis of their nationality, the location of their claim or the jurisdiction where it is payable	NO	YES	N/A	NO	NO	NO
7.7 The legal framework **provides for transparent and expedited processes to give effect to foreign resolution measures** through:	NO	YES	N/A	NO	NO	YES
a) a mutual recognition process	NO	YES	N/A	N/A	N/A	NO
b) measures under the domestic resolution regime that support and are consistent with the resolution measures taken by the foreign resolution authority	NO	NO	N/A	N/A	N/A	YES
7.9 **Legal framework allows for the foreign resolution authority to gain rapid control over the bank's branch** or shares in a subsidiary or its assets that are located in your country	NO	NO	N/A	N/A	NO	N/A
7.10 **Legal framework provide for confidentiality requirements and statutory safeguards for the protection of information** received from foreign authorities	YES	YES	N/A	NO	YES	YS
7.11 Resolution Authority **empowered to share information, including recovery and resolution plans (RRPs)**, pertaining to a bank group or to individual subsidiaries or branches	YES	YES	N/A	NO	YES	YES

Source: Member States of the WAMZ

4.8 Crisis Management Groups (CMGs)

For all G-SIFIs, the KA requires home and key host authorities to constitute a CMG. The essence of such group is to ensure preparedness and facilitate the management and resolution of crisis affecting institutions with cross-border presence. The CMG should involve all relevant stakeholders such as the regulatory and supervisory authorities, ministry of finance, central banks, resolution authorities and other relevant public authorities that are material to the resolution of G-SIFIs.

The CMGs should engage in active regular review of the SIFIs and report regularly to a Regional Financial Stability Board (RFSB)[7]. Following the experience of the FSB, the Resolvability Assessment Process (RAP) can be organised in the interim, where there is no RFSB[8]. The focus of the review should include progress made in the area of coordination and information sharing; recovery and resolution planning process; and the resolvability of SIFIs.

4.8.1 Current Practices Relating to Crisis Management Groups in the WAMZ

Available information showed that countries in the WAMZ are yet to establish a CMG (see Table 8). Considering the significance of such group in the resolution of G-SIFIs with cross-border presence, it is germane for Member States to embrace this model in order to allow for a more proactive management of crisis in the Zone. The development could result from the absence of G-SIFIs in the WAMZ apart from Nigeria.

Table 8: Crisis Management Groups (CMG)

8.0 CRISIS MANAGEMENT GROUPS (CMGs)	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
8.1 Legal framework provide for the formation CMGs for cross-border crises management	NO	NO	N/A	NO	NO	NO
8.2 **Institutions/bodies in home and host countries are included in the CMG**						
a) The central banks	N/A	N/A	N/A	N/A	N/A	N/A
b) The finance ministry (ies)	N/A	N/A	N/A	N/A	N/A	N/A
c) The deposit insurance schemes	N/A	N/A	N/A	N/A	N/A	N/A
d) Others, please specify	N/A	N/A	N/A	N/A	N/A	N/A
8.3 CMG cooperate closely with other jurisdictions where banks have systemic presence which are not represented in the	N/A	YES	N/A	N/A	N/A	N/A

Source: Member States of the WAMZ

4.9 Institution-specific Cross-border Cooperation Agreements

The impact of the failure of a G-SIFI could be contagious and disastrous to the financial system of both the home and the host countries. Hence, the need to at least establish an institution-specific cooperation agreement[9] between the home and concerned host authorities for purposes of planning and staging a crisis resolution programme.

The agreement should, among other things, state the mandates and procedures for cooperation through the CMGs; outline functions and responsibilities before and during the crisis; describe the *modus operandi* for information sharing and the processes for coordinating the planning of the recovery and resolution plan for the institution and parent or holding company as well as significant subsidiaries, branches and affiliates[10].

The KA also requires that such agreement should be made public, at least the broad structure of the agreement.

[7] The Regional Financial Stability Board if established would manage the cross-border activities of institutions within the various jurisdictions under its purview with a view to ensuring financial stability in the Member States and largely, in the Region.
[8] RAP is expected to be carried out by experienced members of the CMG to facilitate adequate and consistent reporting on the resolvability of each SIFI and overall status of the resolution planning process
[9] See Annex 1 of the KA of Effective Resolution Regimes for Financial Institutions by the FSB
[10] More clauses that could be included in the agreement can be found in the KA document by the FSB

4.9.1 Current Practices relating to Institution-specific Cross-border Cooperation Agreements in the WAMZ

The preparation of an institution-specific cross-border cooperation agreements between countries in the WAMZ appears to be lacking. A thorough examination of available information portends that even countries that seem to have some cross-border agreement, such agreements lack relevant information that are pertinent for achieving successful cross-border resolution programme (see Table 9). It is therefore recommended that WAMZ Member States should begin to develop such cooperation considering the level of interaction that exist among financial institutions in the Zone**.**

Table 9: Institution-Specific Cross-Border Cooperation Agreement

9.0 Institution-specific cross-border cooperation agreements	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
9.1 Institutions specific cooperation agreements between Home and Foreign Resolution Authorities.	YES		YES	NO	NO	YES
9.2 Essential elements of the cooperation agreements:						
a) The objectives and processes for cooperation through CMG	NO	YES	N/A	N/A	N/A	NO
b) The roles and responsibilities of the authorities during pre-crisis and crisis stage	YES	NO	N/A	N/A	N/A	NO
c) The process for sharing information	NO	YES	N/A	N/A	N/A	NO
d) The processes for coordination in the development recovery and resolution plans (RRPs)	NO	YES	N/A	N/A	N/A	NO
e) The processes for coordination among home and host authorities for resolvability assessment	YES	NO	N/A	N/A	N/A	NO
f) The agreed procedure for informing home authorities about adverse developments affecting the bank in a timely manner before taking action	NO	NO	NO	NO	NO	YES
g) The agreed procedure for informing host authorities about adverse developments affecting the bank in a timely manner before taking action	NO	NO	N/A	N/A	N/A	YES
h) Details of the cross-border resolution wrt bridge institutions and bail-in powers	YES	NO	N/A	N/A	N/A	YES
i) Annual meetings of top official of home and host authorities to review resolution strategies of cross-border banks	NO	NO	N/A	N/A	N/A	NO
j) Regular reviews (annual) by senior officials of the operational units responsible for implementing the resolution strategies	NO	NO	N/A	N/A	N/A	NO
9.3 Is the broad structure of the cooperation agreements made public	NO	NO	N/A	N/A	N/A	NO

Source: Member States of the WAMZ

4.10 Resolvability Assessment

The achievement of a successful crisis resolution programme is premised on continuous monitoring and assessment of developments in the financial system. This KA requires that a resolvability assessment should be conducted on a regular basis at least for G-SIFIs, in terms of evaluating the feasibility of resolution strategies and their credibility given the systemic importance of their failure on the financial system and the economy as a whole. Annex 3 of the KA by FSB provides a detailed guidance on the procedures for conducting such assessment.

Major areas of concern by resolution authorities when conducting the resolvability assessment include the sustainability of critical financial services, payment, clearing and settlement functions; nature and extent of intra-group exposures; firm's capacity to provide sufficient, accurate and timely information to resolution authority; and the robustness of cross-border cooperation and information sharing arrangements. The KA requires resolvability assessment to be conducted on the group by the home authority of the G-SIFI and under the coordination of the CMG, taking cognisance of the assessment by host authorities.

In a bid to enhance the resolvability of an institution, the supervisory or resolution authorities should be empowered to adopt appropriate measures, such as alteration of an institution's practices, structure or organisation and reduction in the complexity and costliness of resolution. Authorities are required to sustain critical systemic functions by evaluating the necessity of segregating these functions in legal and operational independent entities in order to safeguard them from group problems.

4.10.1 Current Practices Relating to Resolvability Assessment in the WAMZ

A cursory look at the financial systems of the WAMZ's Member States and based on available responses, the conduct of Resolvability Assessment is non-existing. However, Ghana and Nigeria seem to have a process that enables them to segregate the functions in a failing SIFI into legal and operational independent entities in order to ensure continuity and shield it from group problem (see Table 10).

Table 10: Resolvability Assessment

10.0 Resolvability Assessment	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
10.1 The Resolution Authority undertake resolvability assessments to evaluate the feasibility of resolution strategies and their credibility and impact on the financial system	NO	NO	N/A	NO	NO	NO
10.2 Scope of resolvability assessments						
a) The extent to which critical financial services, and payment, clearing and settlement functions can continue to be performed	NO	N/A	N/A	N/A	N/A	N/A
b) The nature and extent of intra-group exposures and their impact on resolution if they need to be unwound	N/A	N/A	N/A	N/A	N/A	N/A
c) The capacity of the firm to deliver sufficiently detailed accurate and timely information to support resolution	N/A	N/A	N/A	N/A	N/A	N/A
d) The robustness of cross-border cooperation and information sharing arrangements	N/A	N/A	N/A	N/A	N/A	N/A
e) Others (specify)	N/A	N/A	N/A	N/A	N/A	N/A
10.3 Resolution Authority conduct resolvability assessments for bank groups with subsidiaries	NO	NO	N/A	NO	NO	NO
10.4 If YES in 14.3, are such assessments done in collaboration with the foreign Aesolution Authority	NO	N/A	N/A	N/A	NO	N/S
10.5 Following resolvability assessment the RA initiate changes to a firm's business practices, structure or organisation to reduce the complexity and costliness of resolution	NO	YES	N/A	NO	NO	N/S
10.6 The RA empowered to segregate systemic functions of a failing bank in legally and operationally independent entities that are shielded from group problems	NO	YES	N/A	NO	YES	N/S

Source: Member States of the WAMZ

4.11 Recovery and Resolution Planning (RRP)

The KA requires recovery process and resolution planning to be institutionalised to cover at a minimum all SIFIs that are incorporated in the host country. The design of the RRP should be robust and credible and should contain essential elements as detailed in Annex 4 of the KA document of FSB. The RRP should reflect inputs from the resolvability assessments report and other idiosyncratic features of the bank in terms of its nature, size, interconnectedness and substitutability. In order to give the RRP the attention it deserves, the KA requires the top management of the financial institution to be personally involved and work with resolution authorities in assessing the recovery plans and preparing the resolution plans. The fifth essential criterion under this KA, requires banks which prepare RRP, to identify options for restoring financial strength and viability during severe stress conditions. Also, the resolution plan should safeguard critical important functions and minimise disruption and losses to taxpayers during a resolution process (See the KA for the remaining 6 essential criteria).

4.11.1 Current Practices Relating to Recovery and Resolution Planning (RRP) in the WAMZ

This KA is among the neglected practices in the WAMZ. Guinea, Liberia and Sierra Leone appear not to have RRP in place. On the other hand, The Gambia, Ghana and Nigeria require banks to maintain a recovery plan that identifies options for restoring financial strength and viability when under resolution programme. However, in Ghana, this plan lacks important elements such as the provision of credible options to cope with a range of scenarios including both idiosyncratic and market wide stress, scenarios that address capital shortage and illiquidity and a process that ensures timely implementation (see Table 11).

Nigeria, and partly The Gambia, seems to have made a lot of progress in the area of Recovery and Resolution planning, however, more needs to be done in enhancing the quality of the RRP in the Zone.

Table 11: Recovery and Resolution Planning (RRP)

11.0 Recovery and resolution planning (RRP)	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
11.1 RA require banks to maintain a recovery plan that identifies options to restore financial strength and viability when under stress	YES	YES	N/A	NO	YES	NO
11.2 Key areas of the recovery plan provided for in the legal framework:						
a) Credible options to cope with a range of scenarios including both idiosyncratic and market wide stress	NO	N/S	N/A	N/A	YES	N/A
b) Scenarios that address capital shortfalls and liquidity pressures	YES	N/S	N/A	N/A	YES	N/A
c) Processes to ensure timely implementation of recovery options in a range of stress situations	YES	N/S	N/A	N/A	YES	N/A
11.3 RA require banks to maintain a substantive resolution strategy agreed by top officials and an operational plan for its implementation	YES	NO	N/A	NO	YES	NO
11.4 Legal framework allows the resolution plan to cover the following:						
a) financial and economic functions for which continuity	YES	N/A	N/A	N/A	YES	N/A
b) options to preserve continuity functions or wind them down in an orderly manner	YES	N/A	N/A	N/A	YES	N/A
c) data requirements on the firm's business operations, structures, and systemically important functions	YES	N/A	N/A	N/A	YES	N/A
d) potential barriers to effective resolution and actions to mitigate those barriers	YES	N/A	N/A	N/A	YES	N/A
e) Actions to protect insured depositors and insurance policy holders and ensure the rapid return of segregated client assets	NO	N/A	N/A	N/A	YES	N/A
f) clear options or principles for the exit from the resolution process	NO	N/A	N/A	N/A	YES	N/A
11.5 RA require banks to ensure that key Service Level Agreements can be maintained in crisis situations	YES	NO	N/A	NO	YES	NO
11.6 Provisions under the legal framework for maintaining service level agreements:						
a) The underlying contracts include provisions that prevent termination triggered by recovery or resolution events	YES	N/A	N/A	N/A	YES	N/A
b) The transfer of the contracts to a bridge institution or a third party acquirer	YES	N/A	N/A	N/A	YES	N/A
c) Others (Specify)	N/A	N/A	N/A	N/A	NO	N/A
11.7 Legal framework provisions for systemically important cross border bank groups:						
a) Home RA leads the development of the group resolution plan in coordination with all members of the bank's	NO	N/A	N/A	N/A	N/S	N/A
b) Host RA and jurisdictions where the bank has a systemic presence are given access to RRPs and the information and measures that would have an impact on their jurisdiction	NO	N/A	N/A	N/A	N/S	N/A
c) Host RA maintain its own resolution plans for the banks but cooperates with the home authority to ensure consistency with group plans	YES	N/A	N/A	N/A	N/S	N/A
11.8 RA ensure that RRPs of banks are updated regularly (at least annually)	YES	NO	N/A	N/A	YES	NO
11.9 If RA is not satisfied with a bank's RRP, is it empowered to require appropriate measures to address the deficiencies	YES	NO	N/A	N/A	YES	NO

Source: Member States of the WAMZ

4.12 Access to information and Information Sharing

Lastly, provision of access to information and information sharing is an important attribute of a standard crisis resolution regime. Member States should provide a framework that allows free exchange of information, including institutions' specific information between and among supervisory authorities, central banks, resolution authorities, ministry of finance and public institutions that provides guarantees. Effort should be made to remove all barriers to access and sharing of information in the enabling laws of countries in the Zone.

For the ease of retrieval, institutions should be mandated to maintain Management Information System (MIS). Such system would ensure timely and qualitative provision of data at all times. Information should be stored at both the group and individual entity levels to allow for easy dissection of data when there is need for segregation upon the Resolution Assessment process, particularly, detailed record of inventory, information on interaction between the group and individual entity, among others.

4.12.1 Current Practices Relating to Access to information and Information Sharing in the WAMZ

Currently, there are no impediments to the exchange of information between and among Member States of the WAMZ. However, there is the need for clear provision of legislations in the enabling laws of Member States for the timely exchange of information within the Zone. Further, apart from Guinea and Sierra Leone where the position is not clear, other countries in the Zone require banks to maintain a Management Information System (MIS) for the ease of storing and retrieving information (see Table 12).

Table 12: Access to Information and Information Sharing

Access to information and information sharing	The Gambia	Ghana	Guinea	Liberia	Nigeria	Sierra Leone
12.1 Legal, regulatory or policy impediments that exist which hinder the appropriate exchange of information	NO	NO	N/A	NO	NO	NO
12.2 RA require banks to maintain Management Information Systems (MIS) that are able to produce information on a timely basis	YES	YES	N/A	YES	YES	N/A

Source: Member States of the WAMZ

5 Summary of Findings, Recommendations and Conclusion

5.1 Summary of Findings

The following are the key findings from the study:

a. Member States of the WAMZ have experienced banking crisis in the course of their banking evolution;

b. Member States of the WAMZ have made some provisions for crisis management and resolutions of insolvent banks in their individual parent banking legislations;

c. Some Member States do not have detailed written crisis management and resolution frameworks detailing out step-by-step processes for resolving failed banks;

d. The various tools deployed by authorities in the resolution process had recourse to public funds;

e. There is increasing cross border banking activities without a regional resolution framework;

f. In terms of the KAs, most Member States have clearly delineated the scope of resolution, defining all financial institutions under its resolution coverage. Apart from The Gambia, all other countries resolution regimes are different from their company bankruptcy or insolvency procedures;

g. In terms of resolution authority, except Guinea, the central banks of each jurisdiction are the competent authority responsible for the resolution of banks. The competent authority, as part of its overarching objective and functions when resolving banks, seeks to achieve financial stability and ensure continuity of essential financial services as well as protect depositors;

h. Generally, the parent banking acts in the WAMZ provides resolution authorities adequate powers to carry out resolutions;

i. Most Member States have not instituted the necessary norms to govern set-off rights, contractual netting, collateralisation agreements and client assets segregation when resolving institutions;

j. While Member States adhere to the hierarchy of claims principle in resolution, some legal frameworks have no provision on creditors' right to compensation and protection of officers of failing banks who cooperate with resolution authorities;

k. Almost all WAMZ countries rely on public ownership and bailout fund in managing resolution, but without explicit mechanism to recover losses incurred from the industry. Ghana and Nigeria have public deposit protection schemes;

l. The legal regime in the WAMZ has limited provisions for ensuring cooperative solution with resolution authorities in other jurisdictions;

m. The legal frameworks in the WAMZ do not have provision for the establishment of crisis management groups;

n. The legal framework of Member States does not or have limited provisions for establishing institution-specific cooperative agreements between home and host resolution authorities for purposes of planning and staging resolution;

o. Resolution authorities in the WAMZ do not conduct regular resolvability assessment for banks;

p. The legal framework of most Member States does not require maintenance of recovery and resolution plans for domestic systemic banks; and

q. In terms of access to information and information sharing, the legal frameworks in the WAMZ have such guaranteeing provisions to facilitate planning and implementation of resolution measures.

5.2 Recommendations

The existing resolution frameworks of Member States in the WAMZ have apparent shortcomings when juxtaposed with the standards outlined in the KAs, necessitating the urgent need to bridge the gaps. The following recommendations are accordingly made to strengthen the resolution regime of Member States:

a. Member States are encouraged to implement the adopted Model Act for Banks and Financial Holding Companies to ensure consistency and parity in the regulatory and supervisory architecture of the banking landscape of the WAMZ, as well as benefits from its rich provisions on resolutions;

b. The competent authorities of the Zone should require the maintenance of recovery and resolution planning to aid pre-emption and planning of resolution as well as preparation for possible failures. This also implies that central banks should create a dedicated resolution department or unit within the supervision department to support the planning process;

c. For banks with cross-border presence in the WAMZ, authorities should collaborate and establish cross-border resolution colleges comparable to CMGs. For host jurisdictions, provisions should be made in their parent legislations to allow authorities honour invitation to join CMGs;

d. Jurisdictions should ensure adequacy of human and material resources to meet resolution requirements in the light of growing complexity of banks and idiosyncratic needs informed by the recovery and resolution planning;

e. Jurisdictions should ensure certainty in legal remedies in relation to resolution actions, by limiting it (legal remedies) to financial compensation only;

f. Authorities should commence undertaking resolvability assessments;

g. The authorities are encouraged to make explicit requirements to minimise the use of public resources in a resolution. However, this should be in line with the financial stability objectives, while introducing ex post recovery mechanisms, requiring recovery of public funds utilised for such purposes from shareholders, unsecured and uninsured creditors or the industry as a whole;

h. The authorities should institute legal provisions that enhance cross-border cooperation on resolution matters, clearly outlining areas and manner of supportive actions it can provide foreign authorities regarding resolution of an entity they are hosting. In this vein, Cooperative Agreements with foreign resolution authorities or regulator, if any, should have provisions on consultation and cooperation on cross-border resolution;

i. To give full force to the resolution mechanism, there is need to create an expert committee to harmonise and develop a model crisis resolution framework for the Zone that would, among other things, outline an effective mechanism for resolving both local and cross-border banking institutions; and

j. In the medium term, when a monetary union is created, a regional resolution body, comprising resolution authorities of Member States should be established to administer the resolution of banks with cross-border presence.

5.3 **Conclusion**

The KAs has become the international standard for crisis resolution following its endorsement by the G20. It documents a detailed set of attributes that are germane for designing standard crisis resolution framework. Benchmarking the resolution frameworks of WAMZ Member States with the KAs, the study identified apparent gaps in the resolution frameworks of Member States, particularly in the areas of resolvability assessment, resolution planning, high reliance on bail-out tools and non-establishment of CMGs relevant for the cross-border banks. The analysis showed that the resolution process has not been institutionalised in some Member States in the Zone. Given the increasing cross-border banking activities in the Zone, there is the need to also focus the discourse of crisis resolution on a regional context. Member States should begin to develop their resolution frameworks encapsulating the essential criteria of the KAs as first steps toward facilitating harmonisation of a sub-regional crisis resolution process.

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