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CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY (CEMAC)

FINANCIAL SYSTEM STABILITY ASSESSMENT

April 2016

This Financial System Stability Assessment on Central African Economic and Monetary Community (CEMAC) was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on July 2, 2015.

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FINANCIAL SYSTEM STABILITY ASSESSMENT

July 2, 2015

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This report is based on the work of a joint IMF/World Bank team that visited Brazzaville and Pointe Noire (Republic of Congo), Douala and Yaoundé (Cameroon), and Libreville (Gabon) in November 2014 and January 2015, to update the Financial Sector Assessment Program (FSAP) for the CEMAC conducted in 2006.

- The IMF-World Bank FSAP team was led by Bernard J. Laurens (IMF) and Cédric Mousset (World Bank), and comprised Antonio Pancorbo (deputy mission chief, IMF), Rachid Awad, Mariam El Hamiani, Vincent Fleuriet, José Gijón, Alexandre Nguyen-Duong, Boriana Yontcheva, and Donat Branger (IMF); Teymour Abdelaziz, Philippe Aguera, Dorothée Delort, Arnaud Dornel, Miquel Dijkman, Axel Gastambide, Marilyne Goncalves Guillaume Mathey, Olivier Hassler, Mathilde Lavaud, Jean-Michel Lobet, and Korotoumou Ouattara (World Bank).

- The mission met with the ministers of finance of Cameroon and Gabon; the governor and management team at the Bank of Central African States (BEAC); the secretary general of the Central African Banking Commission (COBAC); the chair of the Central African Financial Market Oversight Commission (COSUMAF); the BEAC national director in Cameroon, and senior staff of the BEAC and the COBAC general secretariat (SG-COBAC); and representatives of the financial and nonfinancial private sector. The findings were discussed during the 2015 Article IV Consultation mission as well as at an extraordinary meeting of the CEMAC Ministerial Committee.

- Key findings: The short-term risk of a financial crisis appears low, but the assessment identified pockets of vulnerabilities. The financial sector is not contributing effectively to the financing of the CEMAC economies, and political unrest and oil price declines have put pressure on the CEMAC economies, contributing to the intensification of the risk factors. Action is required to foster financial development and inclusion, while ensuring adequate oversight of risk factors. The reform agenda calls for strengthening the effectiveness of the regional financial agencies, by granting them greater operational autonomy, and by boosting their capacity to carry out the reform projects successfully. There is also considerable scope for enhancing the business climate.

- FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risk affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

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Glossary

AFRITAC	African Regional Technical Assistance Center (IMF)
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BCP	Basel Core Principles for Effective Banking Supervision
BEAC	Bank of Central African States
BRVM	Regional Securities Exchange
BVMAC	Central African Securities Exchange
CAMU	Central African Monetary Union
CAR	Central African Republic
CEMAC	Central African Economic and Monetary Community
CI	Credit institution
COBAC	Central African Banking Commission
COSUMAF	Central African Financial Market Oversight Commission
CRCT	Securities Settlement and Depository Unit
CSD	Central Securities Depository
CSF	Financial Stability Committee
DC	Head Office Directorate (BEAC)
DSX	Douala Securities Exchange
DN	National Directorate (BEAC)
FATF	Financial Action Task Force
FCFA	Franc des Communautés Financières d'Afrique
FIU	Financial Intelligence Unit
FOGADAC	Central African Deposit Insurance Fund
FSAP	Financial Stability Assessment Program
FSC	Financial Stability Committee
FSRB	FATF-style regional body
GABAC	Central African Anti-Money Laundering Task Force
GDP	Gross domestic product
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MC	Ministerial Committee
MCM	Monetary and Capital Markets Department (IMF)
MFI	Microfinance institution
MP	Monetary programming
NBFI	Nonbank financial institution
NPL	Nonperforming loans
OHADA	Organization for the Harmonization of Business Law in Africa
PEP	Politically exposed person
ROE	Return on equity
ROSC	Report on the Observance of Standards and Codes
RTGS	Real-Time Gross Settlement
SG-COBAC	COBAC General Secretariat
SME	Small and medium-sized enterprise
SSA	Sub-Saharan Africa

EXECUTIVE SUMMARY

The short-term risk of a financial crisis appears low, but the assessment identified pockets of vulnerabilities. The financial sector is not well positioned to contribute effectively to the financing of the CEMAC economies, and it faces an intensification of risk factors related to geopolitical tensions and the fall in commodity prices. Reform progress has been slow in addressing longstanding weaknesses, despite extensive technical assistance (TA), and the urgency for progress is heightened by recent macroeconomic developments. Firm action is required to foster the development of the financial sector while ensuring adequate oversight of risk factors. The reform agenda calls for granting greater operational autonomy to the regional financial agencies, and boosting their capacity to carry out the reform projects successfully. Prudential regulations need to be upgraded, and regulatory forbearance should be avoided through effective enforcement. There is also considerable scope for enhancing the business climate, one of the weakest worldwide, and financial inclusion, which has been lagging behind.

Following the 2006 FSAP, the BEAC initiated a program of wide-ranging reforms. Progress has been slow, uneven, despite extensive IMF and World Bank provided TA, and a considerable reform agenda remains to be implemented (Table 1).

Stress tests results highlight wide disparities among the categories of banks, and the vulnerability of a number of them to a fall in commodity prices. CEMAC banks (i.e., whose activity is mainly in the CEMAC) are the most vulnerable, and the concentration of assets in the public and hydrocarbons sectors is a key risk factor for the financial sector (already relatively weak as shown by the low compliance with key prudential norms), and a vulnerability for the CEMAC economies. In a scenario of an extreme macroeconomic shock, the capital shortfalls over a horizon of 12 months would be contained (less than 0.50 percent of regional GDP), but only 58 percent of the banks would comply with the minimum solvency ratio, and 24 percent with the minimum liquidity ratio (compared with 80 percent before the shock in both cases). The results of the stress tests may underestimate actual vulnerabilities because of weaknesses in the quality and availability of data, in particular with regard to vulnerabilities related to transactions with connected parties.

The oil shock heightens the need for diversification of the economies, but the financial sector is having difficulties in supporting this much needed transformation. Since the 2006 FSAP, and boosted by a promising economic climate, the ratio of bank credit to GDP rose from 9 percent to 15 percent in 2013 but is still extremely weak, and below levels observed in comparable sub-Saharan Africa (SSA) countries. Furthermore, most of bank credits are channeled to large enterprises, and small and medium-sized enterprises (SMEs) remain underserved.

Table 1. Measures Taken to Strengthen the Financial Sector of the CEMAC

Main Player	Principal Projects and Actions	Status 1/
BEAC COBAC	Establish a regional market in government securities by auction	Largely completed
	Support integrative projects in the CEMAC	Largely completed
	Establish a regional deposit insurance fund	Well under way
	Modernize the large-value payment systems and clearinghouse	Well under way
	Strengthen the BEAC's internal audit and accounting systems	Some progress
	Enhance the monetary policy strategic and operating framework	Well under way
	Enhance the SG-COBAC staffing	Well under way
	Improve the framework for dealing with banking crises	Well under way
	Review the microfinance regulatory framework	Some progress
	Establish a consolidated banking supervision framework	Some progress
	Improve financial reporting	Little progress
	Modernize the retail payments systems	Little progress
	Establish a financial stability framework	Some progress
	Review the requirements for the licensing of banks	Some progress
	Diversify the composition of the COBAC Board	Some progress
	Strengthen the regulations on connected party lending	Little progress
	Review the regulations on large-exposure limits	Little progress
States	Promote leasing	Largely completed
	Create credit rating agencies	Some progress
	Computerize the personal property insurance registers	Some progress
	Integrate the two financial markets operating in the CEMAC	Little progress
	Improve the business climate	Little progress
CEMAC Commission	Revitalize regional integration and diversification of the economies	Some progress

1/ Status of progress: **Largely completed** | **Well under way** | **Some progress** | **Little progress**

While the regional bank and microfinance supervisor (SG-COBAC) has the necessary technical competence, there is a strong need to upgrade the regulatory framework and to strengthen supervision and enforcement, in particular with regard to timely preventive intervention. It is important to: (i) continue the ongoing strengthening of SG-COBAC staffing; (ii) fully implement risk-based supervision; (iii) continue upgrading prudential regulations (connected lending, licensing, bank governance, concentration risk, liquidity management, capital adequacy, risk management, and financial transparency and reporting); (iv) undertake an asset quality review of banking assets, starting with the most vulnerable banks; and (v) clarify the criteria for assessing systemically important banks, and for initiating cross-sectoral and cross-border coordination between all relevant authorities, including the Central African Deposit Insurance Fund (FOGADAC).

The emergence of pan-African banking groups underlines the urgency of upgrading the regulatory and supervisory framework. While the CEMAC regulations on consolidated supervision have just been approved, the mechanism is not yet fully operational. In addition, recent crisis cases of banks operating in several jurisdictions have highlighted the need for faster and more decisive interventions by the COBAC when dealing with problem banks–which enhanced institutional autonomy would facilitate–and limiting delays in crisis management and resolution related to national authorities' actions.

The BEAC should accelerate the pace of financial sector reforms. This requires a better articulation of the role of the regional and national authorities. In particular, there is a disconnect between proven technical capabilities at the regional financial agencies and the slow pace of reforms. A strengthening of the powers of the regional financial institutions is needed to support the foundations and effectiveness of the monetary union. The current macroeconomic context, which is putting pressure on the public finances of member states, heightens the urgency to strengthen the BEAC's capacity to manage liquidity pro-actively and in particular to introduce greater flexibility in its monetary programming (MP) framework. The partial repatriation of export receipts by some states at the BEAC (in particular of the financial flows related to the oil sector) complicates systemic liquidity management by the BEAC. Finally, the BEAC's oversight of systemically important payment systems should be upgraded, as should its Securities Settlement and Depository Unit (CRCT) to ensure better control of operational risks.

The CEMAC national authorities should increase the delegation of powers to the regional financial agencies. This should involve a review of the laws of the Central African Monetary Union (CAMU) to grant greater operational autonomy to the regional financial agencies—particularly the BEAC, as also called for under the IMF safeguards assessment—along with increased transparency and accountability to the decision-making bodies of the CEMAC (Ministerial Committee (MC), Conference of Heads of State). As a first step, the national authorities should identify and monitor the implementation of the prior actions needed for returning the chairmanship of the BEAC board of directors to the governor. Granting greater autonomy to the regional financial agencies would strengthen the effectiveness of their actions to deepen the financial sector as well as its stability, particularly given the expansion of pan-African financial groups.

A better use of current human capital is necessary to make the regional financial agencies more effective. The following actions would help:

- The involvement of the national authorities in the selection of senior staff of the BEAC and the SG-COBAC (national and head office directors and other senior staff) should be replaced by transparent procedures based on the qualifications of candidates;
- The BEAC should take better advantage of its national directorates (DNs) to play a unifying role for all of the reform projects: the DNs should be more closely involved with the reform projects managed by BEAC head office directorates (DCs). The BEAC should also adopt a "pilot project" approach, whereby projects first implemented in one country could be replicated in other;
- A result-based approach to reforms could be introduced, whereby the use of resources is guided by well-defined project objectives and outcomes.

Public policies should promote the development of financial intermediation and infrastructure. Incentives for the financing of projects that are currently poorly funded by the banks should give priority to market-based incentive mechanisms rather than to direct interventions by state-owned banks. Electronic money has a huge potential for financial inclusion that requires specific structured actions by the BEAC. It is also urgent to rationalize the two competing stock markets so as to promote nonbank financing to the private and public sectors. Finally, the anti-money laundering and countering the financing of terrorism (AML/CFT) framework needs to be rapidly strengthened both at the national and regional levels.

The deepening of financial intermediation calls for improvements in the business climate. The persistence of a very difficult business climate in the CEMAC creates obstacles to private sector development, including banking activity, and handicaps growth. Priority areas include: protecting land rights, improving registration systems, streamlining mortgage foreclosure procedures, and enhancing the training and specialization of magistrates (and courts) as well as the governance of judicial bodies. Coordinated actions are also needed to deepen financial inclusion, and the BEAC and SG-COBAC should set up a monitoring mechanism.

Table 2. Key Recommendations

Key Recommendations (By responsible decision-making body)	Impact 1/ S	Impact 1/ D	Time-frame 2/
Conference of Heads of State and/or the Ministerial Committee (CM)			
1. MC to validate the methodology to assess the optimal level/structure of international reserves. 2. Streamline the procedure for the approval of CEMAC regulations on the financial sector.	High	Neutral	Less than a year
3. Formalize cooperation procedures among all the authorities to be involved in a financial crisis.	High	High	1-2 years
4. Identify actions to return chairmanship of the BEAC board to the governor.	High	High	1-2 years
5. Complete the streamlining of the two competing stock markets.	High	High	1-2 years
6. Strengthen the institutional autonomy and accountability of the BEAC and COBAC.	High	Average	Over 2 years
7. Review the rules and practices for appointing senior staff of the regional financial agencies.	High	High	Over 2 years
Regional Financial Agencies: BEAC and COBAC			
1. Increase the BEAC's transparency by adopting an appropriate accounting framework.	Average	High	Less than a year
2. Adopt a regional approach to credit reporting systems, keeping duplications to a minimum.	Average	High	Less than a year
3. Accelerate implementation of the monetary policy reform.	Average	High	Less than a year
4. Initiate an asset quality review, at least of the systemic and the most vulnerable banks.	High	Neutral	Less than a year
5. Put in place an appropriate lender of last resort framework	High	Neutral	Less than a year
6. Strengthen and formalize the role of the BEAC's national branches in financial sector reforms.	High	Neutral	1-2 years
7. Strengthen the FOGADAC's pay box function.	High	Average	1-2 years
8. Continuously strengthen the SG-COBAC's staffing.	High	High	1-2 years
9. Strengthen the prudential framework of lending to connected parties. 10. Review the tools available to the supervisor for implementing risk-based supervision.	High	High	1-2 years
11. Establish a mechanism for monitoring financial inclusion.	High	High	1-2 years
12. Implement coordinated actions to promote the use of electronic money.	Average	High	1-2 years
National authorities			
1. Ensure that governance of the state-owned banks is consistent with best practices.	High	Average	Less than a year
2. Streamline mortgage foreclosure procedures within the framework of the OHADA.	Average	High	Less than a year
3. Secure land rights and strengthen the registration systems.	Average	High	1-2 years
4. Give preference to official support mechanisms open to all credit institutions.	Average	High	1-2 years
5. Adopt an AML/CFT prosecution policy (including for predicate offenses).	Neutral	High	1-2 years
6. Improve the training/specialization of magistrates and the governance of judicial bodies.	High	High	Over 2 years
7. Put the national FIUs in Congo and Equatorial Guinea into operation.	Average	High	Over 2 years

1/ S: Stability - D: Development	High	Average	Neutral
2/ Timeframe for implementation	Less than a year	1-2 years	Over 2 years

CONTEXT

A. Macroeconomic Risks in the Financial Sector

1. Over the past decade, primarily as a result of high oil prices, the CEMAC achieved robust economic growth, although lower than the SSA average, but insufficient to significantly reduce poverty (Figure 1). Countries launched wide-ranging public infrastructure programs needed to support regional economic activity, but large fiscal expansion reduced the fiscal buffers for coping with the negative oil price shocks. The economies are poorly diversified, and non-oil GDP growth is largely sustained by public expenditure and the services sector. Poverty and unemployment remain high, in particular among young people.

2. A poor business climate and weak governance are hampering financial sector development and its contribution to financing investments Corrective actions in this regard are needed to improve the growth potential and competitiveness of the CEMAC economies.

3. The weakness of regional integration also limits the growth potential. Although the CEMAC has a common legal system (OHADA), a common external tariff, and a common currency, numerous tariff and non-tariff barriers hinder the flow of goods, services and persons. Intraregional trade accounts for only 2 percent of all trade. Intraregional financial transactions are also limited, compared with the volume of international transactions. By contrast, a certain increase is noted in intraregional payments, along with an expansion in government securities issued at the regional level.

4. The drop in oil prices by about 60 percent between June 2014 and January 2015 has had a large impact on the CEMAC countries' macroeconomic performance (Box 1). Oil revenue represents over 50 percent of the Union's fiscal outlays and more than 80 percent of exports. The sharp decline in oil revenue is expected to force some countries to reduce budgetary spending, including public investment programs. Pressures on their treasuries could also lead states to use a portion of their deposits at the BEAC and in the banking sector, which could in turn weaken the liquidity position of

Box 1. BEAC Assessment of the Oil Shock Impact

According to the baseline scenario prepared by the BEAC, the oil shock impact would be as follows:

Real sector: The CEMAC is expected to record a 1.8 percent growth decline in 2015 owing to falling oil sector activity and the consequent retrenchment in capital expenditures. For 2016-17, growth is projected to recover to average about 7 percent. Inflation is expected to remain subdued at around 2.3 percent for the period 2015–17.

External sector: Over the period 2015–17, the current account deficit would deteriorate to 14.1 percent of GDP on average, and the international reserves coverage is projected to fall to an average of 3½ months of imports of goods and services.

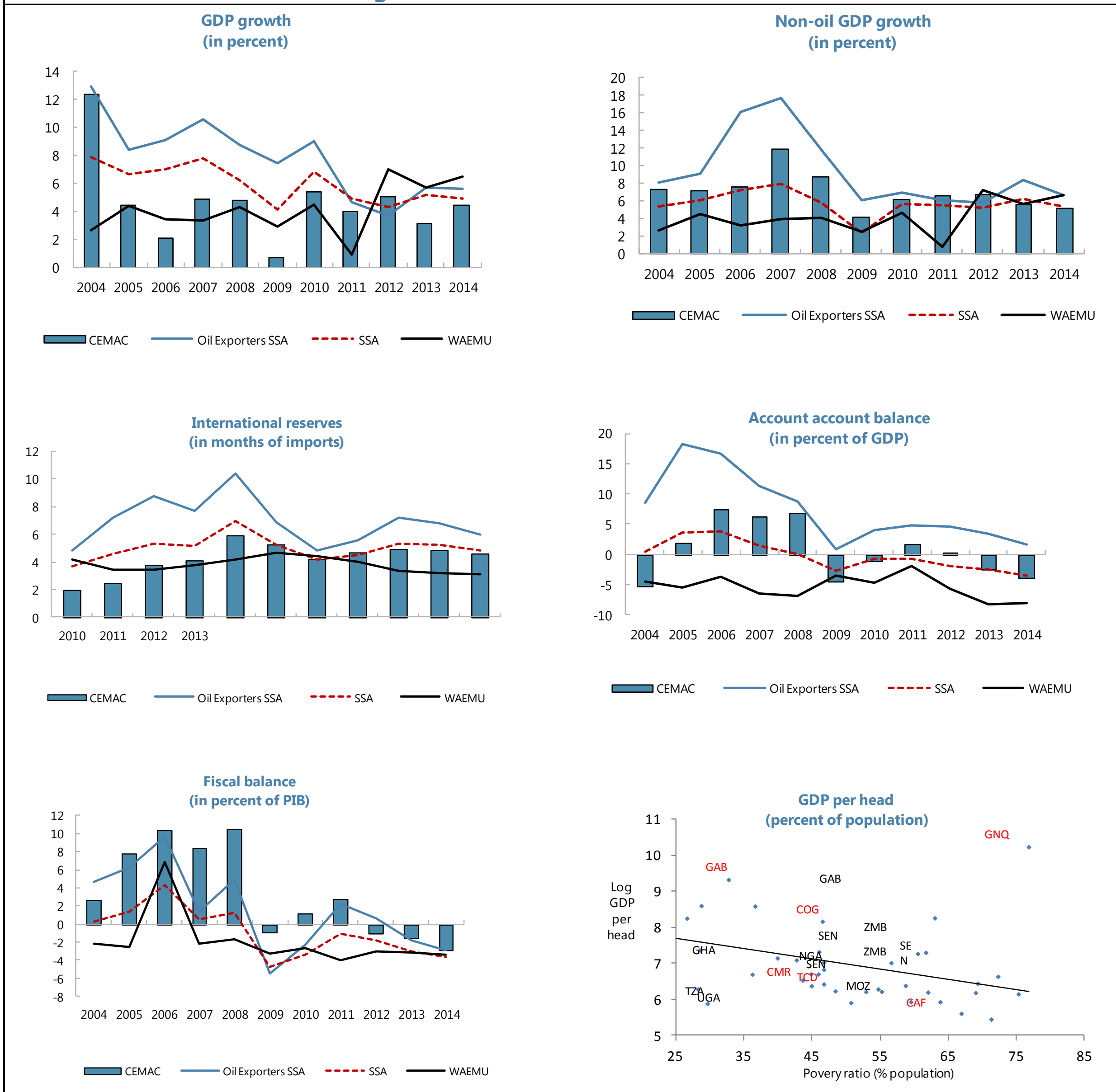
Public sector and debt: The fiscal balance would decline to -6.7 percent of GDP in 2015, -4.9 percent in 2016, and -3.4 percent in 2017; financing needs should lead to a significant increase in debt.

Monetary aggregates and banking sector: The external coverage ratio would fall to 87.4 percent for the period 2015–17. However, it would plummet to 52 percent if the states' financing requirements were only met on the domestic market. The banks' liquidity levels should remain at comfortable levels.

Source: BEAC.

some financial institutions. Such pressures could also lead to problems in paying suppliers and thus to an increase in the nonperforming loans (NPLs) of financial institutions.

Figure 1. Macroeconomic Indicators



Source: IMF staff estimates.

5. The worsening of the security situation related to the crisis in Central African Republic (CAR) and Boko Haram's activities in the northern part of Cameroon could also affect economic activity. The expectation of higher risks could affect investment in new projects and commercial activity, with ensuing adverse effects on financial sector stability and profitability.

B. Structure and Performance of the Financial Sector

6. The CEMAC's financial sector is dominated by commercial banks, and in some countries large microfinance institutions (MFIs); foreign banks manage about 50 percent of the total assets (Table 3). The banking sector is heterogeneous, segmented, and strongly concentrated: on average, the three main banks in each country hold more than 70 percent of the assets despite the arrival of new foreign players.

Table 3. Structure of the Financial Sector, June 2014 1/

	No. of Institutions	Assets (EUR bn)	% of Assets	% CEMAC GDP
Banks	50	18.0	90	24
Private	39	16.1	81	22
Public 2/	11	1.9	10	2
Domestic	18	8.2	41	11
Foreign 3/	32	9.8	49	13
Cameroon	13	6.0	30	8
CAR	4	0.3	1	0
Chad	8	1.4	7	2
Congo	10	3.1	15	4
Eq. Guinea	5	3.1	16	4
Gabon	10	4.2	21	6
NBFIs	8	0.8	4	1
MFIs (Sep 2103)	777	1.2	6	2
Total	835	19.9	100	27

Sources: COBAC and IMF.
1/ Excludes the insurance and pension sectors.
2/ Banks with state ownership above 50 percent.
3/ Banks with majority ownership held outside the CEMAC.

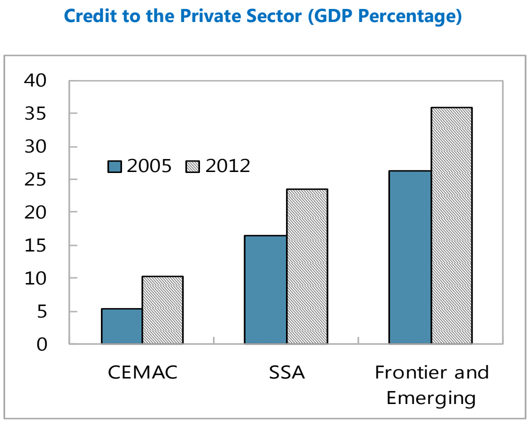
7. Financial depth has improved somewhat since 2006. At end-2013, banking assets in the CEMAC represented 26.3 percent of the CEMAC's GDP, compared with 15.7 percent in 2004. The ratio of private credit to GDP, at 10 percent, increased less quickly. For the most part, loans are granted for short and medium terms, and demand deposits represent the bulk of banks' resources. The ratio of credit to deposits also increased, going from 57 percent in 2010 to 67 percent in 2013. The Cameroonian and Gabonese markets shares have declined, with Congo and Equatorial Guinea becoming larger.

8. Access to formal banking services is however lower than in comparable SSA countries. Figure 2 shows that credit to the private sector, as percentage of GDP has increased since the last FSAP but still remains low in a regional comparison. Financial inclusion is limited and less than 15 percent of adults are bank account holders, which is lower that the SSA average. The level of income affects access to financial services. Bank lending is preferably to customers whose wages are deposited in an account with them[1] and large enterprises receive most of bank loans (80 percent). Surveys of potential bank users find as constraints relatively high minimum deposit requirements compared with income, the high costs of the services, and the distance from the nearest bank branch (Findex database, 2012). In addition, access to savings and to traditional bank financing are comparatively more difficult for the poor and for women in the CEMAC. The mix of all these constraints results in an extremely limited access to financial services in the CEMAC.

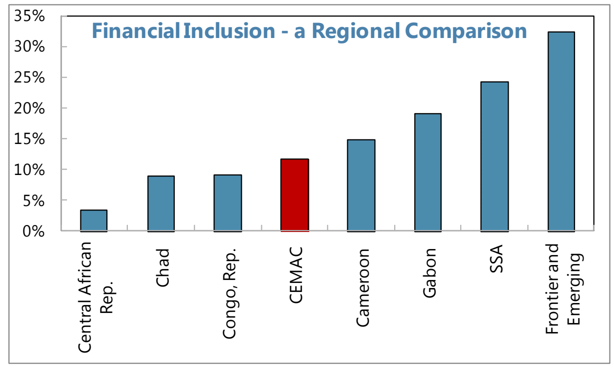
[1] Less than 3 percent of the population obtained a bank loan over the past 12 months, and only 7.5 percent of adults have a savings accounts.

Figure 2. Indicators of Financial Sector Development

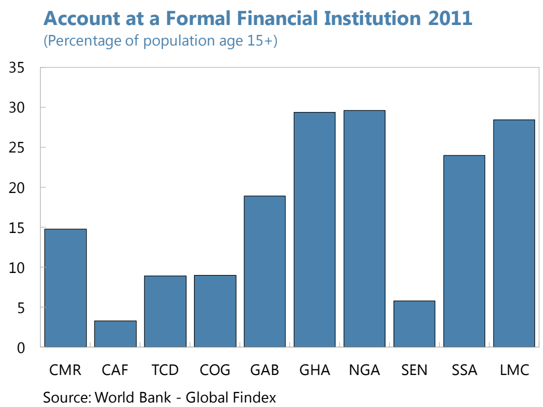
Credit has increased but is still low in a regional comparison…



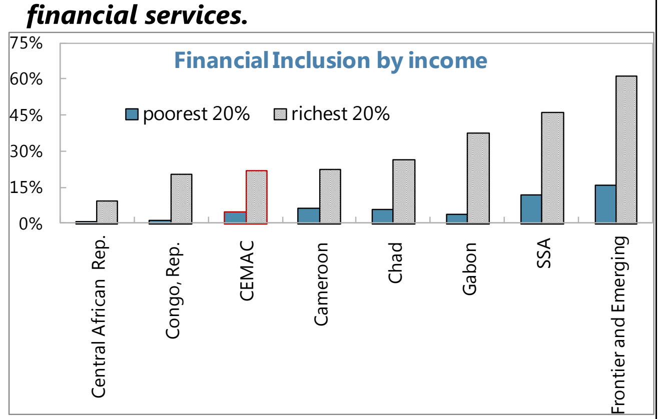
…and financial inclusion remains limited in the CEMAC.



The share of the population with a bank account is lower than the SSA average …



…and the level of income affects access to financial services.



Sources: Findex and IMF staff estimates.

9. The bank business model shows little diversity and a limited match with developmental needs. Loans to connected parties, reflecting the ownership structure of local banks, have been the main contributor to past bank crises and remain a source of risks for locally owned banks. The banks' overall ample liquidity and the absence of regular publication of the banks' financial statements contribute to the limited development of the money market. Electronic banking services are beginning to be offered but are still embryonic, and the cost of electronic funds transfers is much higher than that in comparators, for example, in East Africa. The microfinance sector is relatively well developed in three countries (Cameroon, Congo, and Chad) and offers financial services to households and SMEs not using the banking system.

10. Financial intermediation and access to credit remain hampered by a number of structural constraints. The barriers include, in particular, inadequate functioning of the judiciary, the absence of appropriate guarantee instruments, and the lack of credit reporting. To reduce these barriers, the BEAC envisages developing a payment problem information center at the regional level, but the authorities should implement more wide-ranging reforms.

11. Overall, the banking sector is profitable, with wide differences across countries, and differentiation depending on the size of the institutions (the smaller banks being less profitable). After plunging in 2009, the banking sector's profitability recovered gradually up to levels close to those noted in 2004-05. In 2013, the return on equity (ROE) averaged 19.3 percent, compared with 16.9 percent in 2005. The profitability of Cameroonian banks, on the decline between 2010 and 2012, settled in 2013. Congolese and Gabonese banks show relatively comfortable and stable profitability. A downward trend is observed for the banks in Equatorial Guinea and Chad. The political crisis in CAR led to a collapse of bank profitability. The large banks show relatively strong profitability as opposed to the small banks whose return on equity (ROE) was highly negative in 2013. Of the eleven state-owned banks, five recorded losses in 2013.

12. Interest and fees account for nearly the same share of revenues, which illustrates the low level of banking diversification. Cameroon is an exception: fees are relatively large, whereas the interest margin is near double the revenue from fees in CAR. The low level of operating expenses for the banks in Equatorial Guinea is also noteworthy. The evolution in the average cost of credit has been negligible: interest rate margins stood at 7.1 percent in 2013 (lower than in 2011).

13. Other trends in the banking landscape since the 2006 FSAP have been as follows: (i) a sharp increase in the number of state-owned banks, from 2 to 11, with others planned in several countries. In 2014, state-owned banks accounted for nearly 11 percent of banking sector assets, compared with 3.6 percent in 2005;[2] (ii) the sector concentration: the three main banks manage 50-90 percent of bank assets, depending on the country, and two groups originating in the CEMAC own one-third of the banking assets; and (iii) the arrival or development of new players headquartered in SSA countries and the Maghreb (respectively, 13 and 9 percent of sector's assets).

C. Follow-up of the 2006 FSAP

14. The initial 2006 CEMAC FSAP identified institutional and capacity constraints undermining the effectiveness of the regional financial agencies, including material deficiencies in the legal and judicial framework; poor quality of financial data; weak financial market infrastructure; limited institutional autonomy of the COBAC compounded by inadequate staffing; poor conformity with international standards; and weak systemic liquidity frameworks at the BEAC.

15. The 2006 FSAP was also followed by wide-ranging IMF and World Bank technical assistance (TA) programs in support of the actions initiated by the authorities (Table 4). The technical assistance related to increasing staff bank supervisory capacity at the SG-COBAC, improving the accounting and internal control systems at the BEAC, building the BEAC's capacity to manage systemic liquidity and the foreign exchange reserves, and assisting the member countries in public debt management. The Central African Regional Technical Assistance Center (AFRITAC) contributed to these actions in the areas of banking supervision and public debt management. The African Development Bank provided support in the area of securities markets.

[2] It is noteworthy that only 50 percent of these banks comply with the minimum solvency ratio.

16. Progress in addressing the findings of the 2006 FSAP was held back due to several factors, including: delays in the recruitment or appointment of professional staff at the BEAC and SG-COBAC; lengthy processes for adopting CEMAC regulations; and difficulties in building a consensus for reforms. Delays in the reform agenda at the regional level have led some member states to move forward even though a regional approach would have been preferable.

Table 4. IMF Technical Assistance, 2007–14 1/

(FTEs) 2/	Banking Supervision	BEAC Statutory Functions	Other	BEAC Governance	Public Debt Management	Total
COBAC	2.25	-	-	-	-	2.25
BEAC	-	1.60	0.68	2.53	1.35	6.16
Cameroon	-	-	-	-	0.28	0.28
CAR	-	-	-	-	0.29	0.29
Chad	-	-	-	-	0.40	0.40
Congo	-	-	-	-	0.23	0.23
Equatorial Guinea	-	-	-	-	0.03	0.03
Gabon	-	-	-	-	0.26	0.26
Total	**2.25**	**1.60**	**0.68**	**2.53**	**2.84**	**9.90**

1/ The World Bank provided support in the context of a $50 million project to build the capacity of CEMAC institutions, covering the period 2009–14.
2/ FTEs: equivalent expert years.
Source: IMF.

STRESS TESTS RESULTS

17. The stress tests show a high vulnerability to credit risks specific to the CEMAC (fiscal imbalances in response to the oil shock and a degradation of security), especially for the banks with main activity within the CEMAC.[3] However, the team's analysis, and supervision more generally, are limited by weaknesses in the quality and reliability of financial data: supervisory returns are poorly verified; capital positions may be overstated given the weak regulatory framework on lending to connected parties and the definition of regulatory capital; and the weights applied to some transactions do not always reflect the risks associated to the underlying assets.

18. Most notably, the stress tests show the predominance of credit risk (Table 5 and Figure 3). In the event of an extreme macroeconomic scenario leading to 15 percent of the performing loans becoming non-performing, only 58 percent of all the banks would comply with the solvency ratio (currently, 80 percent of the banks comply with the minimum level of 8 percent). Yet, immediate capital shortfalls would be contained (less than 0.50 percent of regional GDP). The vulnerability to credit risk is amplified in the event of weak sectoral credit diversification, which is generally the case for banks whose business is concentrated in the CEMAC: only 18 percent of those banks would be in compliance with the solvency ratio after the shock, compared with 65 percent and 76 percent respectively in the case of banks operating in SSA and those operating internationally.

[3] The impact of a shock on liquidity is however more uniformly distributed (see Appendices IV and V for a detailed description of the various shocks).

Table 5. Aggregated Stress Test Results: Macroeconomic Scenario

		Before shock		After shock 2/		
Banking groups 3/	No. of banks 1/	% of banks complying with the solvency ratio	% of banks complying with the liquidity ratio	% of banks complying with the solvency ratio	Capital shortfalls (% of GDP)	% of banks complying with the liquidity ratio
CEMAC	11	36	64	18		36
SSA	17	94	82	63		18
Other	17	94	88	76		24
Total	**45**	**80**	**80**	**58**		**24**
Cameroon	13	69	85	46	0.45	8
Congo	10	90	90	70	0.15	40
Gabon	9	78	67	44	0.70	22
Eq. Guinea	5	80	100	80	0.13	60
Chad	8	88	63	63	0.27	13
Total	**45**	**80**	**80**	**58**	**0.37**	**24**

1/ The data for one Gabonese bank in the CEMAC area group were unavailable.
2/ See details in Appendix IV.
3/ CEMAC: banks whose main economic activity is the CEMAC; SSA: banks whose main economic activity is in SSA non-CEMAC countries.

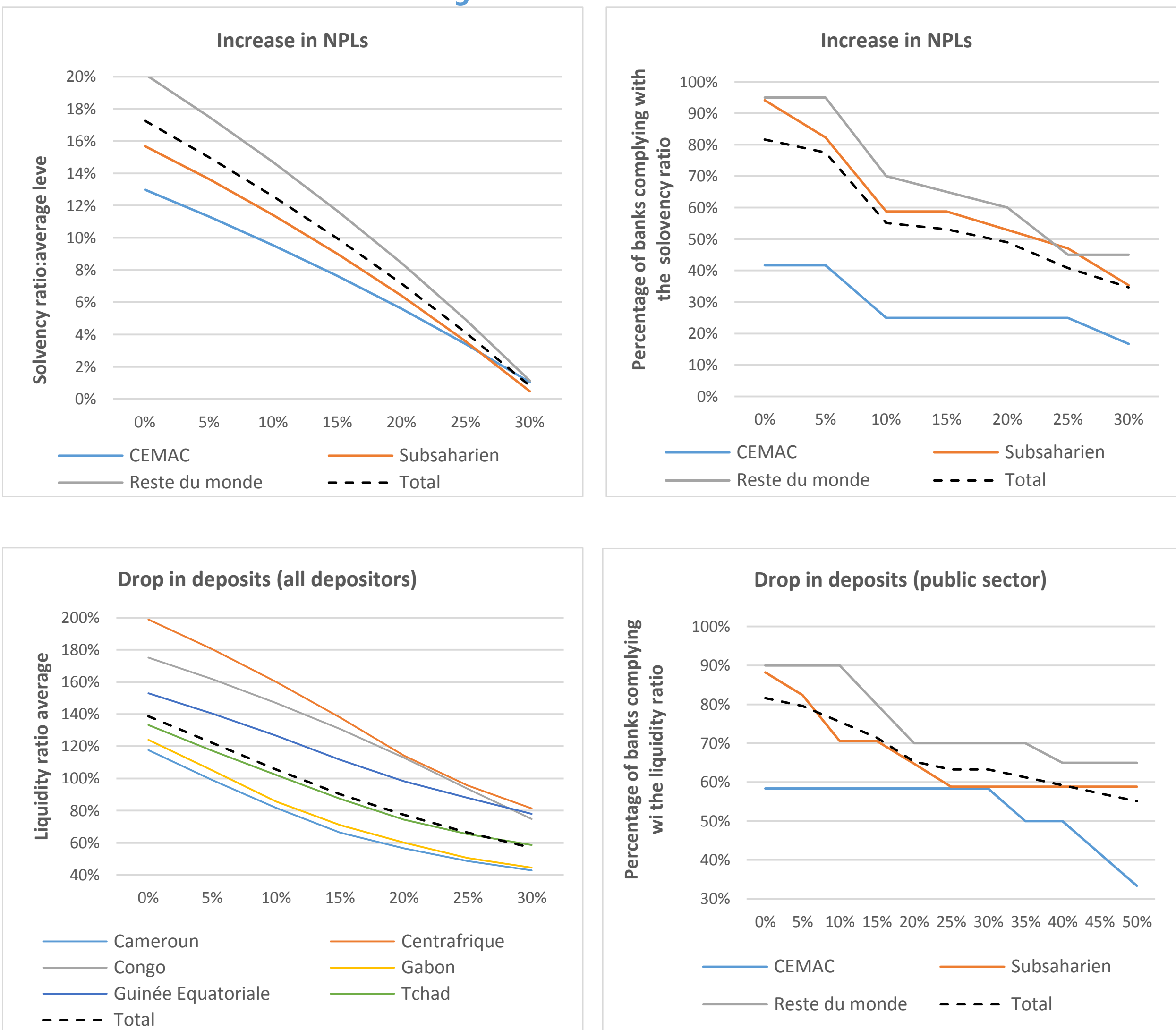
19. The results of the other unitary shocks are as follows:

- **The banks are highly vulnerable in case of deposit withdrawals,[4] due their heavy reliance on volatile sight deposits (representing close to 80 percent of their liabilities) for their funding.** Following a 25 percent decline in deposits, the weighted average of the regulatory liquidity ratio would fall to 66 percent, against 138 percent before the shock. Banks in Cameroon, Gabon, and Chad are the most vulnerable, their respective ratios being 49 percent, 50 percent, and 65 percent. However, it is worth noting that the banks have large current account amounts available at the central bank which could be used to mitigate the liquidity risk.

- **Exposures to direct foreign exchange and interest rate risks are limited.** The immediate impact on the bank' balance sheets of devaluation of the CFA franc against the euro, or of a depreciation or appreciation of the CFA franc against the U.S. dollar, would be small. While lack of data prevents the assessment of a secondary effect (impact on borrower creditworthiness), the low level of borrower indebtedness denominated in foreign currency suggests limited direct vulnerability. The banks' direct exposure to interest rate risk is also very limited: the valuation of assets and liabilities is not very sensitive to interest rate changes because of the scarcity of tradable securities in the bank's balance sheets.

[4] As described in the RAM, the probability of the risk is deemed low.

Figure 3. Stress Test Results



Sources: SG-COBAC and IMF calculations.

- **The largest MFIs, like the banks, are mostly exposed to credit risk.**[5] They would no longer comply with the solvency ratio following a 15 percent transition of performing loans to NPLs. However, a drop of up to 30 percent in their deposit base would not threaten their ability to comply with the liquidity ratio.

- **A recalibration of risk weights, so that they reflect better the risks associated to the underlying assets, would affect negatively the solvency of the banks.**[6] As discussed in the

[5] Stress tests for MFIs were conducted on the 8 largest institutions, representing about 50 percent of the sector's total assets (see Appendix V).

[6] The recalibration is based on the recommendations made in the context of the BCP assessment.

BCP assessment, weighting of loans and the nature of the deductions applicable to certain categories of loans divert from prudent practices. In order to evaluate the impact of regulations aligned with Basel rules, the mission recalibrated banks' prudential ratios. As shown in Table 6, only 69 percent of the banks would comply with the solvency ratio once risk weights are recalibrated so as to ensure a better alignment of CEMAC rules with Basel.

20. The results of the stress tests exercise and of the analysis of the financial statements of credit institutions point to a few measures to be considered to better align the supervisory framework of the COBAC with the specificities of the CEMAC: (i) given the banks' widely varying risk profiles, it would be advisable to implement the Basel pillar II approach, as this would allow the COBAC to adjust capital requirements on the basis of the bank's risk profile; (ii) given the growing role of banking groups in the CEMAC, it is important to operationalize quickly the framework for consolidated and cross-border supervision; (iii) the reduced weights applied to some assets for the calculation of the solvency ratio should be revised so that they reflect more accurately their risk profile; and (iv) large MFIs should be subject to an enhanced supervisory framework, closer to the one in place for the banks.

Table 6. Results of the Recalibration of Weighted Risks

		Net weighted risks in effect			Net adjusted weighted risks 1/			
Banking group	**No. of banks**	**Solvency ratio**	**Capital shortfall (% of GDP)**	**% of banks observing the ratio**	**Solvency ratio**	**Capital shortfall (% of GDP)**	**% of banks observing the ratio**	**Difference in percentage points**
CEMAC	11	12.7%		36	11.0%		27	1.7
SSA	17	15.3%		94	13.2%		76	1.9
Other	17	19.8%		94	13.8%		88	6.0
Total	**45**	**16.8%**		**80**	**13.2%**		**69**	**3.6**
Cameroon	13	13.6%	0.35	69	11.1%	0.40	54	2.5
Congo	10	15.7%	0.01	90	12.9%	0.01	90	2.8
Gabon	9	13.6%	0.33	78	10.9%	0.35	67	2.6
Eq. Guinea	5	29.5%	0.10	80	19.8%	0.10	80	9.6
Chad	8	18.6%	0.15	88	16.8%	0.16	75	1.7
Total	**45**	**16.8%**	**0.22**	**80**	**13.2%**	**0.24**	**69**	**3.6**

1/ Trade credit items are weighted at 100 percent (compared to 50 percent currently). The guarantees deductible from commitments and the deductions for loans eligible as collateral for the BEAC's refinancing operations are weighted at 0 percent (compared respectively to 100 and 50 percent currently).

FINANCIAL STABILITY POLICY FRAMEWORK

A. Actions of the Central Bank

Systemic liquidity management

21. The pressure on countries' public finances and on the CEMAC's external position as a result of the current macroeconomic conjuncture call for strengthening the BEAC' s ability to manage systemic liquidity proactively. At this time, the monetary programming framework in place at the BEAC is not as flexible as it should be. Moreover, the imperfect pooling of cash balances by some states at the BEAC (in particular of the financial flows related to the oil sector) complicates systemic liquidity management by the BEAC.

22. These challenges emphasize the urgent need to bring to completion the reform of the monetary policy framework. The following key actions are recommended:

- *Strengthen the internal functioning of the BEAC*. The strengthening of the BEAC's internal controls and its accounting system, when completed to the satisfaction of the oversight bodies, will make it possible to return the chairmanship of the BEAC board of directors to the governor, together with the adoption of a governance structure for the BEAC which combines the three pillars of modern central banking, namely independence, transparency, and accountability. It is also critical to revisit the rules and practices for the selection and appointment of the BEAC's top officials (national and head office directors and other senior staff), in order to ensure that appointments by the BEAC authorities are based on candidates' professional qualifications and experience, while at the same time maintaining a balanced national representation.

- *Strengthen the systemic liquidity forecasting and management framework.* The work already started at the BEAC should be completed as a matter of priority. This will involve a close coordination with the national authorities in charge of government cash flow management.

- *Initiate the reform of the monetary policy operating framework.* The multiplicity of monetary policy instruments blurs the readability and transparency of the BEAC's actions. It is therefore urgent to streamline the framework, along the lines of past recommendations made in the context of Fund technical assistance. This effort should also include actions to develop the government securities market; a regional committee under the aegis of the BEAC should be established to this effect.

- *Put in place a lender of last resort framework* distinct from the monetary policy operating framework.

Reserve management

23. The current pressures on the external position of the CEMAC also reinforce the need to strengthen the BEAC's reserve management framework, and to have its key components

validated by the Ministerial Committee, including: (i) the methodology for assessing the optimal level of international reserves; (ii) the structure of the reserves portfolio;[7] and (iii) the methodology for determining the remuneration of the deposits by CEMAC member states. Current arrangements could be amended towards an assets-liabilities approach, whereby the remuneration of the deposits would reflect the return on the assets in which they are invested.[8] The implementation of the above principles governing the framework for foreign exchange reserves management should remain under the responsibility of the Monetary Policy Committee-MPC (e.g., actual calculation of the optimal level of reserves, of the structure of the reserves, and of the remuneration of deposits, and setting the strategic allocation of reserves).

B. Regulation and Prudential Supervision of Banks and MFIs

24. The current banking oversight framework contains important regulatory gaps and supervisory weaknesses that need to be timely and adequately addressed to better control banking sector risks (Annex I). In particular, the evolution of the financial landscape calls for an acceleration of the pace of reform. For this to happen, the respective role of the regional and national authorities needs to evolve. The COBAC laws and regulations also need to be amended to take better account of the risks to the stability of the domestic banks and MFIs resulting from excessive lending to connected parties; the weights associated to banks' assets should reflect better actual risks; and the increasing complexity of banking groups operating in the region.

25. The BCP assessment highlights the need for a more effective allocation of roles and responsibilities between national and regional agencies. The current allocation is not conducive to an efficient balance between national and regional issues. It needs to be amended as follows:

- *Mission*. Whereas the COBAC Secretary General is a member of the recently created Financial Stability Committee (CSF), the sharing of responsibilities and information between the SG-COBAC and the BEAC should be clarified and strengthened;

- *Institutional independence*. The institutional independence of the Board of the COBAC needs to be strengthened through greater diversification of its members (all of them held positions in the national ministries of finance at the time of the mission). Board members should be recruited on the basis of financial expertise, with due consideration given to potential conflicts of interest. At the same time, the COBAC's transparency and accountability should be enhanced.

[7] A possible structure could involve the following levels: (i) Level 1. Liquidity account, which should include the share that must be deposited to the Operations Account, and make it possible to meet immediate needs; (ii) Level 2. Yield account, to meet less probable needs and provide higher returns; and (iii) Level 3. Reserves above the optimal level could be managed with a more aggressive investment objective and a lower level of liquidity.

[8] This principle would lead to several levels of remuneration. Up to the optimum level of reserves, the remuneration would be relatively low because of the liquidity requirement applicable to the underlying assets. The remuneration of deposits backing the reserves beyond the optimum level should be more attractive because of lower liquidity requirements. Such an approach should improve transparency in the distribution of the BEAC's profits to the states and also provide a positive incentive as regards the states' obligation to pool all their external assets at the BEAC.

- *Regulation*. The processes for adopting prudential regulations should be streamlined through greater delegation to the COBAC to reduce delays in enacting new regulations.[9]

- *Penalties*. The authorities should consider establishing a dedicated sanction committee within the COBAC. This could facilitate the independent management of issues involving state-owned. The dissemination of explanations on sanction, while preserving confidentiality, would strengthen the COBAC's credibility, while at the same time providing market players with greater legal transparency by increasing their understanding of official jurisprudence.

26. The BCP assessment also identifies areas where the prudential requirements need to be strengthened. The ongoing review of key regulations, in particular with regard to risk management, should continue.

- *Capital and loans to connected parties*. A review of the regulatory framework for loans to connected parties is urgently needed, the importance of which was again brought to mind by recent banking crises.[10] Similarly, the regulation on large exposure risks, which is not at par with international standards (45 percent in the CEMAC compared with 25 percent recommended by the Basel Committee) should be revised.

- *Transparency*. Transparency in the financial sector should also be urgently improved. CIs should be required to publish timely annual reports on their financial position, governance and risk management frameworks, and to present their financial statements on the basis of an accounting framework consistent with international standards.

- *Consolidated and cross-border supervision*. The recent adoption by the MC of the regulation on consolidated supervision is a key step forward. The SG-COBAC should proceed forward in putting the regulation into effect. It should also supervise cross-border banks incorporated in the CEMAC through undertaking more frequent joint missions with foreign supervisors, organizing supervisory colleges, and signing the pending draft cooperation agreements.

- *Risk management*. The COBAC should draft regulations covering risk management in general, and the management of specific risks (liquidity, interest rate, and market risks). In addition, the SG-COBAC should improve the enforcement of current regulations on bank governance.

27. Finally, the BCP assessment highlights the need to strengthen the internal functioning of the SG-COBAC. The activities of the various SG-COBAC units and their staffing should be upgraded on the basis of transparent, more effective and efficient procedures, so as to help increase professionalism at all levels of the institution. The following areas require a particular attention:

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[9] As an example, it took 11 years for the SG-COBAC to draft the rule on the restructuring and liquidation of CIs, and then for the COBAC to validate it in March 2014.

[10] The SG-COBAC should establish and continuously update the mapping of banks' ownership held directly or indirectly through screen companies, whether or not these are registered in the CEMAC.

- *Staffing*. The significant increase in staffing that occurred soon after the mission's BCP assessment is commendable, and a valuable step to correct an endemic shortage. Yet, an assessment of the optimal staffing level should be undertaken in light of the regional supervisor's responsibilities, the increasing number and complexity of CIs to be supervised, the significant evolution of supervisory standards, and the emergence of pan African banking groups. All those efforts are indeed critical to ensure that the national authorities do not question the effectiveness (and therefore relevance) of the regional supervisory framework.

- *Supervisory approach*. Although the skills and competence of the SG-COBAC staff are recognized, the supervisory process is primarily compliance oriented. The prudential tools used need to be further strengthened in order to transition further towards risk-based supervision. In particular, the SG-COBAC is encouraged to undertake periodic analysis of the banking sector that would help assess more appropriately systemic risks and their effect on the banking sector.

28. The regional regulatory and supervisory framework for the microfinance sector, which was designed a decade ago, needs to be strengthened. The mission noted a shortage of human resources, given the large number of financial institutions to be supervised. [11] As a result, weaknesses of governance, transparency, capacity, and information systems persist and threaten the viability of a number of MFIs. Cognizant of the problem, the COBAC has begun discussions with a view to delegating to the national authorities some aspects of the supervision of not systemically important MFIs. This initiative is welcome, and the authorities should finalize this work as soon as possible. The ongoing review of the regulatory and supervisory framework for MFIs by the COBAC is also a positive step; it should encompass an in-depth assessment of the provisions on governance, internal control, and resolution of the problems faced by MFIs (in light of recent MFIs bankruptcies), as well as on consumer protection. These reforms should be supported by the establishment of a credit reporting system that includes the MFIs.

C. Financial Stability Framework

29. The recently established financial stability framework needs to be made fully operational. While overtime a fully developed institutional framework for macroprudential policies will be useful, at this juncture the priority should be given to strengthening the microprudential supervision framework; clarifying the BEAC's role (including establishing a lender of last resort function); adopting a mechanism for identifying banks and MFIs of systemic importance; strengthening of the framework for monitoring financial stability through the conduct of stress tests in coordination with the SG-COBAC; and undertaking analysis of the channels of contagion between the macroeconomic and financial sectors.

[11] At the time of the BCP assessment the MFIs unit comprised only 5 staff; 5 additional staff was added in early 2015.

CRISIS MANAGEMENT AND SAFETY NETS

A. Crisis Management and Resolution

30. The recently adopted regulation for crisis management and resolution is a significant progress, but needs supporting measures. After a lengthy process, drawing on the lessons of recent banking crises (Box 2), a new regulation was adopted in 2014 by the MC. Two main points deserve the authorities' attention:

- *The special restructuring provisions* create for the resolution authorities, under CEMAC, COBAC, UMAC, and MC Regulations, far-reaching powers that have not yet been tested, and that could be challenged in court.

- *The actual implementation of the new arrangements* requires supporting measures to: (i) specify the criteria for initiating special restructuring operations, and especially regarding the assessment of whether or not a bank is of systemic importance; (ii) specify the provisions aimed at safeguarding the interests of parties that believe they have incurred losses greater than those they would have suffered in the context of liquidation under ordinary law; (iii) protect the interests of the funding entities (the deposit insurance fund—FOGADAC and the states) by recognizing their preferential rights over those of other creditors; and (iv) clearly establish the obligation for the FOGADAC and the COBAC to take legal action against shareholders and executives responsible for bank failures caused by anomalous or fraudulent management actions.

Box 2. Lessons of the Recent Banking Crises

The treatment of the most recent banking failures offers a broad catalogue of the risks likely to arise in dealing with problem banks.

- National authorities did not always intervene in a well coordinated manner with the COBAC.
- The rescue of insolvent banks with public funds was not timely and not always based on the proven systemic importance of the banks.
- The maintenance of shareholders in the capital of banks being restructured with public funds enabled them to limit their contribution to the losses, whereas the banks' failure largely resulted from loans granted to entities in their group.
- The lack of legal backing in the measures taken opened the door to judicial appeals by the shareholders, leading to the excessive lengthening of the resolution process.

31. The legal framework should also be supplemented by mechanisms for consultation and coordination among all the authorities potentially concerned by the failure of complex financial groups with cross-border business. These additions should entrust to the COBAC a prominent, if not exclusive, role over the other authorities in the region, so as to ensure: (i) the indispensable speed in decision making; and (ii) the consistency of the options implemented by the national authorities concerned by the failure of a group operating in several jurisdictions of the region. The improvement of the current regulations should be accompanied by the formulation of clear procedures assigning to each pertinent authority, including the FOGADAC, a specific role in the selection of available options, and in the decision-making and implementation processes.

32. The ordinary resolution arrangements applicable to institutions that are not of systemic importance should also be reviewed. The powers assigned as regards disciplinary and restructuring matters are not established clearly enough to be legally unquestionable. The criteria for the use of those powers should be specified to ensure that interventions are gradual and match the seriousness of the given situation.

33. The following key measures are recommended:

- *The mandate given to the COBAC as the resolution authority should be explicitly established.*
- *Financial groups operating in the CEMAC should be structured around a holding company subject to consolidated supervision and the resolution framework.*
- *The objectives and priorities governing special restructuring should be more explicitly established.*
- *The COBAC should require at least the systemic banks to elaborate Recovery and Resolution Plans*.
- *The COBAC should immediately undertake the analysis of the legal resolution frameworks governing the foreign groups carrying out a systemic activity within the CEMAC.*

B. Cross-Border and Cross-Sectoral Cooperation for Crisis Management

34. The existing structure of the banking sector in the CEMAC makes it indispensable to foster cooperation among all the authorities likely to be involved in a financial crisis. Several banking groups already operate in several CEMAC jurisdictions, with a holding company at the head of most of these groups whose head office is located outside the region. Among them, there is a growing presence of insurance companies, albeit relatively small for the time being, also operating in the CEMAC. The trend toward greater complexity and geographical diversification of the conglomerates emphasizes the urgent need to put into place supervision and coordinated crisis management, on a consolidated basis and encompassing the holding companies. To effectively protect domestic financial stability, the authorities should ensure they can undertake a resolution in the CEMAC by considering asking financial groups to restructure in a way that effective supervision and resolution can be exercised—for example, through the creation of an intermediate holding company as a parent entity for the entities operating the CEMAC region.

35. Cooperation among the authorities should be organized within the region and between the CEMAC authorities and their foreign counterparts. Within the CEMAC, it is advisable to improve the functioning of the link between the COBAC and the national authorities and the cooperation among national authorities, while organizing the relationships among the CEMAC supervisors responsible for the various financial sectors.

Cooperation within the CEMAC

36. As indicated in Box 2, recent experiences have highlighted weaknesses in the cooperation and coordination between the COBAC and the pertinent national authorities and among the latter themselves. Delays in the initiation of resolution procedures illustrate the difficulty of the COBAC to implement coercive restructuring measures in a coordinated way. The unquestionable insolvency of the institutions at the time when they are finally placed under temporary receivership increases the cost of resolution financing. It also makes it more difficult to understand the criteria currently adopted by the authorities to gamble further on the recovery of a bank with the same shareholders and executives, when, in the case of banks not of systemic importance, direct liquidation would seem to be the only reasonable solution.

37. The function of crisis management committee was recently assigned, as its second key mission, to the recently established Financial Stability Committee (FSC), which is slowly being put into place. To prevent the neutralization of the FSC's capacity to act by the same centrifugal forces found within the COBAC Board, the FSC should impose operating rules, clearly allocating the roles and responsibilities of each of its members.

38. The existence of a Regional Supervision and Resolution Authority should provide assurances of coordination among the national authorities. Consolidated supervision, which also covers the holding companies, should give all the authorities involved a full understanding of a possible crisis faced by a group operating in several CEMAC jurisdictions. Knowledge of intra-group flows can help optimize the burden sharing in the case of a group of systemic importance, and help avoid an artificial optimization organized by a shareholder on the basis of regulatory and/or relational arbitration. In cases where an ailing foreign group is operating in various CEMAC jurisdictions through subsidiaries (which, as sister companies, are not supervised on a consolidated basis within the CEMAC), the coordinated approach of the pertinent authorities is all the more necessary (in the absence of regional sub-consolidation of the accounts) for building a common overview and formulating a coordinated strategy with respect to shareholders and foreign authorities.

39. A code of procedures should establish the prerogatives of the resolution authority, introduce operating procedures going beyond consultations among heads of institution, and prepare the professional staff in each institution among whom cooperation is likely to be required. It should organize the resolution process, from the alert, the study, and the selection of options, to the obligations for information sharing, communication, and coordinated action. This code of procedures will have to clearly define the relationships between COBAC and national authorities to act appropriately in a timely way, but it should also cover relationships with the other supervisors of other financial sectors and include the FOGADAC. Setting up, for each case, a crisis unit bringing together professionals appointed by each authority would allow a short decision-making process, as well as facilitate ownership of the procedures by the relevant professionals. Crisis coordinating measures should be organized around COBAC as the regional resolution authority, and effective crisis preparedness framework should be put in place, including regional crisis simulation exercises.

Cross-border cooperation outside the CEMAC

40. The establishment of interactive cooperation between home and host authorities is indispensable for effectively managing a banking crisis. The cases are still rare where the COBAC is the home country supervisor of a financial group that is also operating outside the CEMAC. By contrast, acting as the host country supervisor, it has a crucial role in the context of cooperation with the authorities of a financial group's home country when the foreign group is operating in several of the region's jurisdictions, which is often the case. The existing agreements do not yet allow for information sharing on the basis of reciprocity and similarity in protecting the confidentiality of shared data. Agreements should be concluded with all the home country authorities of groups operating in the CEMAC, so as to encourage not only information sharing among supervisors, but also the adoption and implementation of decisions for resolving banking and financial crises. In cases where groups of systemic importance have a lot of business in the subregion, the authorities should immediately undertake a comparative study of the laws and regulations in effect in their respective jurisdictions and identify any differences that may represent lasting or temporary barriers to the implementation of plans aimed at a comprehensive resolution of the group.

C. Deposit Insurance

41. The creation of the FOGADAC has made the CEMAC one of the rare jurisdictions in Africa to have deposit insurance arrangements in place at this time. The FOGADAC was designed for remedial and preventive interventions to compensate depositors after any bank failure, and to help finance the resolution of banks in distress. To date, it has never been called upon to take action. The amount of the coverage was set theoretically at FCAF 5 million per depositor per bank (i.e., about USD 9,100).

42. A number of laws and regulations as well as of operating arrangements will, however, have to be consolidated to ensure the effectiveness of its intervention.

- *Establishment of operating procedures for enabling the FOGADAC to carry out successfully an operation to repay insured deposits***.** Quick repayment would be difficult, given that the task of undertaking such an operation would currently fall to a single staff member of the SG-COBAC. In addition, the absence in the CEMAC of a single code of procedures for the identification of persons will hinder the validation of repayment applications.

- *Collection of data on insured deposits*. FOGADAC intends to set itself an objective of providing coverage but that is still hampered by the absence of data that can be used to assess the amount of deposits eligible for possible repayment.

- *Clarification of the actual scope of the coverage offered by the FOGADAC*. Should the funds available to the FOGADAC prove insufficient to repay all eligible deposits, it would have three options: (i) either to increase the contributions for which the banks are responsible; or (ii) seek an advance from the fiscal authorities; or (iii) further reduce its disbursements to the amount of funds in its possession. Action on the first option seems hardly likely, given the composition of the FOGADAC Managing Committee and the predictable reluctance of banking associations in CEMAC countries.[12] Action on the second option clearly depends on the resources available to the pertinent fiscal authorities. Action on the third option would generate uncertainty for depositors as regards the actual amount for which they are insured, and could diminish the FOGADAC's credibility and its aptitude to prevent a run on a bank.

- *Specification of the prerequisites for exercise of the FOGADAC's preventive function*. The FOGADAC's capacity to intervene appropriately covers the financing of special restructuring to resolve a crisis faced by an ailing bank. However, the criteria that would warrant an intervention of that type should be specified, such as, for example, the priority given to the least costly intervention option. Nor is anything specified for making such an intervention dependent on the withdrawal of licensing from the failed bank and its executives.

- *Establishment of consultation and coordination procedures in the context of the financial safety net.* It would be helpful to make room for the FOGADAC's participation in the CSF, which has been officially established but is still being set up. It seems indispensable to include the FOGADAC in the mechanisms of coordination among the pertinent authorities for the implementation of these solutions.

43. The following measures are recommended:

- Ensure the operating capacity for intervention through staff enhancement measures for successful depositor repayment operations.

- Issue a rule requiring banks to submit monthly reports showing the amount of their deposits actually eligible for FOGADAC coverage.

- Establish an objective of properly calibrated coverage taking account of the potential for support from the fiscal authorities, and eliminate the option of lowering the amount of the deposits covered to the amount of resources available from the FOGADAC.

- Manage the conditions for intervention by the FOGADAC to help finance the restructuring of banks in distress, through procedures specifying: (i) the intervention criteria; (ii) the priority given to the least costly options; and (iii) the preferred ranking of claims held by the FOGADAC.

- Establish the conditions for participation by the FOGADAC in the selection of resolution options and for coordination of their implementation with the other authorities.

[12] The FOGADAC Managing Committee comprises the BEAC Governor, who chairs it, and the presidents of the six banking associations.

DEVELOPING THE FINANCIAL SECTOR

A. Financing of the Economies

44. Financial inclusion represents a major challenge in the CEMAC. The World Bank's 2011 Findex survey showed that only 12 percent of adults had a bank account, one half of the average noted in SSA, with great disparity within the region.[13] The BEAC and the COBAC should put into place a management chart that can be used to measure and monitor financial inclusion in all its dimensions. It would also be helpful to undertake surveys through interviews and polls that can give a better idea of the financial capacity of households and the barriers (on the demand side) to progress as regards financial inclusion.

45. Customer relations and the services offered to individuals have slightly evolved. Individuals in the formal sector are a major source of deposits, but the share of credit going to them is steady (15 percent). These financing operations take the form of overdrafts and consumer loans (consistently backed by wages) whose maturity is often 3-4 years. The use of payment cards is limited; remote banking is only now being developed. The rapid growth of financial services targeting households has revealed shortcomings in the consumer protection framework that deserve further attention.

46. Microfinance plays a significant role in the CEMAC. Most MFIs are authorized to take deposits. The microfinance sector though remains weak, especially with an extremely high average rate of outstanding payments, at 22 percent. Excessive exposure to connected parties, barely or poorly identified, is a common issue, and the ongoing liquidation of some MFIs, triggered by severe governance problems and affecting thousands of low-income savers, has highlighted the need to strengthen the supervision and crisis management arrangements for MFIs.

47. Credit to SMEs is negligible and growing only slowly. While little reliable information is available, SMEs financing by the banks seems to be stagnant. The MFIs, which serve a somewhat different population of SMEs, are increasing their financing operations; rates are in the range of 9-18 percent for banks and 15-25 percent for MFIs. Leasing is a key source for the financing of capital goods in those countries where a specific legal and institutional framework has been established (Cameroon and Gabon).

48. The low level of term financing from domestic banks reflects concerns about risks and the size of bank balance sheets (for large projects), and the lack of long-term resources. Moderate progress has occurred since 2006 in medium- and long-term domestic bank financing. The above-mentioned problems related to the business climate as well as the sociopolitical uncertainties in some countries led the banks to focus on high-grade borrowers for whom the risks are better managed. The structure of their resources is also a constraint, as these are composed

[13] Data collected by the authorities is fragmented; it does not allow a precise assessment of financial inclusion.

largely of demand deposits. In the absence of a reference interest rate index, fixed-rate loans expose lenders to interest-rate risk. Development institutions have been created (or are planned) to remedy these weaknesses; they should strictly adhere to the best international practices which requires considerable effort.

49. Housing credit is still only marginally developed in the CEMAC and remains far short of the needs. Along with exogenous constraints (limited use of the banking system, lack of affordable housing, large portion of the labor force in the informal economy), major barriers are created by the poor credit climate itself. The lack of long-term resources also explains the great prudence of the commercial banks and contributes to the rise in the cost of credit. Microfinance does not offer solutions that match the needs, despite sporadic progress. The temptation persists to replace the market by government interventions instead of tackling the causes of its inefficiency. Progress was achieved recently in land management from the legal and operating perspectives.

50. Improving the business climate and financial environment to facilitate access to households and SMEs to finance is essential and some reforms can be implemented quickly. The processes of registration, transfer, and notarization of property deeds should be streamlined and the associated costs and delays reduced in order to facilitate the use of real estate as collateral. Strengthening creditor rights (in particular when they have assets) and the establishment and modernization of unified collateral registries would allow SMEs to use a broader range of securities to access credit. This would also allow banks to reduce the required levels of collateral and prevent "opportunistic" defaults. The modernization of the credit information systems is also essential and can bear results quickly. The BEAC and the COBAC should monitor financial inclusion and the pricing of financial services. Regulatory measures have been taken to reduce the cost of financial services that could be complemented by a review of the value-added tax regime. Strengthening transparency, redress mechanisms, and financial education will improve consumer protection. The rules on governance and internal control of banks and MFIs regarding connected parties transactions need to be strengthened and enforced to reduce the risks of financial crises. Finally, public interventions should not be designed to replace financial institutions, but to encourage interventions by them.

B. Financial Infrastructures

51. The capital market remains embryonic and fragmented.[14] The market includes the regional stock exchange (BVMAC), supervised by a regional body (COSUMAF), as well as a parallel mechanism in Cameroon, with a stock exchange (Douala Stock Exchange, DSX) and a supervisor (CMF). The coexistence of two separate mechanisms, regional and Cameroonian, was already highlighted in 2006. In practice, the survival of the two mechanisms depends on financial support from the public sector. The long-ongoing actions to unify the mechanisms should be

[14] At end-2014, nine bond issues (primarily by the states) were listed. Shares were listed on four occasions, three in Douala and one in Libreville. Liquidity on the secondary market is extremely low.

completed quickly, first starting with the establishment of a unique central securities depository (CSD).

52. Since the 2006 FSAP, the BEAC has made good progress with the establishment of a Real Time Gross Settlement (RTGS) system, and an automated clearinghouse. **Delays** in establishing an efficient retail payments market (which has a negative effect on economic development and financial inclusion), will be absorbed only with a proactive approach by the BEAC. Electronic money's potential for development is extremely significant, and the BEAC should improve the monitoring of its development in the CEMAC. The BEAC should also strengthen its oversight function, so as to be able to supervise the systems of systemic importance as well as to fulfill its mission of supervision, monitoring, and strategic encouragement of retail payments.

53. More reliable, detailed credit reporting is a key factor for facilitating proper risk control by financial institutions and therefore for financial inclusion. It is important to improve coordination of the multiplicity of uncoordinated regional and national initiatives, a source of redundancies that weakens the chances of success of those initiatives. The establishment of an efficient, coherent regional credit reporting system will require consensus and the participation of a wide range of public and private players, as well as a commitment from the public authorities, and in particular from the BEAC.

C. Anti-Money Laundering and Combating the Financing of Terrorism

54. The CEMAC faces significant money laundering and terrorism financing risks. In the implementation of effective AML/CFT policies, the authorities face structural and sectoral challenges that are conducive to money laundering operations: a predominance of informality and the use of cash in the economy, a small portion of the population using the banking system, unreliability of identification documents and lack of register computerization, highly porous borders, and money laundering in the real estate, banking, funds transfers, manual foreign exchange operations, and microfinance.

55. The Central African Anti-Money Laundering Task Force (GABAC), despite serious efforts, has not yet been recognized as a Financial Action Task Force (FATF)-style regional body (FSRB). The GABAC has made efforts to launch a program of mutual assessments, organize regular task force meetings, and prepare typology exercises on AML plans in Central Africa. The GABAC began a process of close cooperation with the FATF, with a view to obtaining FSRB status; that process is currently frozen because of delays in the GABAC's adoption of procedures for transparent financial management.

56. The following actions should be undertaken as a matter of priority:

- *Complete, as soon as possible, the process of recognizing the GABAC as a FSRB,* providing it with procedures for transparent financial management;
- *Put the FIUs in Congo and Equatorial Guinea into operation;*

- *Set up, within each state, an effective inter-ministerial committee responsible for drafting a national AML/CFT policy* defining priorities for action by each player, short and medium-term quantitative objectives, and means of action;

- *Draft, in each member state, a comprehensive and structured criminal justice policy for AML/CFT and the principal offenses, including corruption and the embezzlement of public funds*, that would include the combating of money laundering in criminal proceedings.

- *Make funds transfer companies subject to a mechanism for licensing/registration and for supervision; and*

- *Increase the appropriate financial, technical, and human resources* of regional and national supervisors of the financial and nonfinancial sectors, for gradual and effective implementation of AML/CFT risk-based supervision and ensure supervisors have and use a broad range of powers to enforce AML/CFT requirements.

Appendix I. CEMAC Fact Sheet

The CEMAC is an economic and monetary union with six member states (Cameroon, Central African Republic (CAR), Chad, Republic of Congo, Equatorial Guinea, and Gabon). In 1994, it replaced the Central African Customs and Economic Union (UDEAC) formed in 1966 by five former French colonies. Equatorial Guinea joined in 1983.

CEMAC: Selection of Economic and Social Indicators

CEMAC: selection of economic and social indicators	2011	2012	2013
Population (in millions)	42.8	43.3	44.1
Regional GDP (in US$ billions)	20.1	23.0	28.8
GDP growth (%)	3.9	5.2	2.6
Fiscal surplus/GDP (%)	4.9	0.7	0.5
Inflation (IPC, %)	2.5	2.7	1.8
Life expectancy at birth (in years)	54	54	54
Infant mortality (per 1,000 births)	72	72	72
Literacy rate (% of adult population)	n.d.	n.d.	75
Poverty (% of total population)	n.d.	n.d.	31

Source: Compilation by IMF staff.

The CEMAC member states share a currency: the African Financial Community franc (CFAF or XAF). The CEMAC is a monetary union along with the West African Economic and Monetary Union, the Eastern Caribbean Monetary Union, and the Euro Area. The XFA is pegged to the euro. A treaty between the CEMAC member states and France guarantees the free, unlimited convertibility of the XAF into euro, at a fixed rate. The French treasury guarantees this peg. The value and definition of the XAF may be changed following consultations between the member states and France. The member states agree to observe the provisions governing the issuance of currency; the pooling of international reserves; the circulation of currency and unlimited currency transfers within the Union; and the harmonization of rules on money, banking, finances, and exchange arrangements.

At the international level, the Union is led by the Ministerial Committee (MC) and the Conference of Heads of State, which establish the regional policy guidelines and appoint the heads of the community's institutions. The CEMAC also has a Parliament and a Court of Appeals. In addition, there is a regional legal framework (OHADA), which is not always well understood.

The CEMAC's principal financial agencies are: (i) the Bank of Central African States (BEAC), which is the regional central bank that issues the currency and manages monetary, foreign exchange, and international reserves policy, with its head office located in Yaoundé (Cameroon); and (ii) the Central African Banking Commission (COBAC), which is the regional banking supervisor. Since July 2014, the latter's general secretariat (SG-COBAC) has been located in Libreville (Gabon). The supervision of action to combat money laundering and the financing of terrorism (AML/CFT) falls within the competence of the COBAC, assisted by the BEAC. The financial agencies responsible for capital markets and the insurance sector have only a symbolic presence.

Appendix II. Action Taken to Implement the Key Recommendations of the 2006 FSAP

Key Recommendations	Measures Taken and Current Situation
Independence of the supervisor	
Increase the sources from which COBAC members can be appointed, to include persons other than senior officials of national ministries.	Partly implemented. Among the 12 members of the COBAC Board, seven of the representatives of member states hold senior positions in their country's ministry of finance.
Further limit the powers of the national ministries in the issuance and withdrawal of banking licenses.	The licensing regulations are under review. Based on the current drafts, the powers of the ministries of finance in this area will not be fundamentally changed.
Supervision of the financial sector	
Strengthen the staffing of the SG-COBAC.	Partly implemented. Despite a few recruitments, staffing has declined because of numerous departures, especially since the secretariat's relocation to Gabon. At end-November 2014, the SG-COBAC had 45 staff members, compared with 62 in January 2012. At end 2014, the staffing of the SG-COBAC was increased by 16-20 persons following the assignment of senior managerial staff (AES) from the BEAC's 20th class.
Fully enforce the applicable rules, including on AML/CFT matters. Ensure that the COBAC's disciplinary powers are actually used in cases of serious offenses. Consider the benefits of adopting a more "automatic" license withdrawal procedure whenever the situation of a credit institution remains critical for too long.	Partly implemented. The COBAC has appreciable means of enforcement, but these are not yet being used effectively. This considerably delays the treatment of banking problems. New draft regulations on the restructuring of banks in difficulty were adopted at the March 2014 meeting of the CAMU's CM. This new framework will enhance the enforcement resources available to the COBAC, but other measures should be taken to facilitate the implementation of enforcement procedures.
Security of the banking system	
Increase the minimum capital-debt ratio that the banks must observe, so that they can be better equipped to absorb shocks.	Not implemented. The risk hedge ratio is still 8 percent and takes into account only credit risks. A task force was created in February 2014 to consider possible steps to amend these regulations. Its work was disrupted by the relocation to Libreville.

Make the prudential framework more consistent with international standards.	Partly implemented. Although efforts have been made to make the rules more consistent with international standards, the time taken to adopt them is long: new rules have been adopted by the COBAC but are not in effect (restructuring of banks in difficulty, classification of loans, and provisioning). The assessment of compliance with the BCPs shows that many elements of the prudential framework still do not comply with international standards, in particular as regards consolidated supervision, the capital-debt ratio, risk bunching, loans to connected parties, and the rules on liquidity.
Broaden the definition of connected parties.	Not implemented. The regulations have not been amended and are at variance with international standards.
Management of systemic liquidity and the rechanneling of fiscal surpluses	
Manage the cash flows of member states centrally at the BEAC.	Partly implemented. The past few years have seen major efforts by all the states to reduce the number of accounts maintained by central government departments in the banks. Notwithstanding, several central government bodies still maintain accounts with huge balances at the banks. This is observed in all the CEMAC countries, to varying degrees.
Develop the use of market-based instruments in monetary policy and public debt management.	Partly implemented. The BEAC has put into place a regulatory framework for a regional government securities market. The countries have started the practice of auctioning treasury bills on this market. Monetary policy continues to be based primarily on instruments that are not market-based.
Establish a framework whereby a desirable international reserves target can be set.	Partly implemented. In 2008 the BEAC formulated a framework for assessing the optimal amount of reserves, distinguishing between liquid reserves for balance-of-payments needs and reserves invested for the longer term. However, their risk/yield profile was not optimized, and the investment tranche profile seems not to meet the member countries' expectations.
Access to financial services	
Encourage financial intermediation by matching the ceilings on lending and borrowing interest rates with basic market data. Ultimately, remove all controls on interest rates.	Implemented. The regulatory setting of ceilings on lending and borrowing rates has been eliminated.
Improve the business climate through more efficient functioning of the legal and judicial framework and by developing the financial infrastructures.	Not implemented. The business climate, the rule of law, and the protection of property rights in the CEMAC subregion are among the most unhelpful in the world.

1/ At end-2013, the CEMAC countries' international reserves totaled US$17.5 billion, or five months' coverage of imports for the subsequent year, compared with six months' coverage at end-2012.

Note: These recommendations were made in the 2006 FSAP. www.imf.org/external/pubs/ft/scr/2006/cr06321.pdf

Appendix III. CEMAC: Risk Assessment Matrix[15]

Risk	Probability	Consequences
1. Fiscal shocks attributable to the fall in commodity prices—particularly oil prices.	**High** ● A sustained decline in crude oil prices will have adverse repercussions for hydrocarbon exports and thereby fiscal revenues in most countries of the region. The decrease in hydrocarbon revenue will undermine the public financial viability of many of the sovereigns. ● A slowdown in global demand and the launching of numerous new projects at a global scale will lead to excess capacity.	**High** ● Declines in oil revenue may reduce the financing of public investment and of non-oil sector projects, and affect the banking sector. ● Public enterprises may have liquidity problems and reduce their deposits with the banks, some of which may face liquidity constraints. ● The weakening of non-oil sector activities may affect the SMEs and impair the quality of credit from MFIs. ● The decrease in exports and in economic activity may adversely affect bank profitability.
2. Sociopolitical and security threats in the CEMAC.	**Medium to high** ● Escalation of the civil war in CAR, leading to greater population displacement to neighboring countries. ● Intensification of the activities of Boko Haram in northern Nigeria and in Cameroon, which would trigger security concerns in Cameroon and Chad. ● Spread of the Ebola outbreak in West Africa to the CEMAC. ● Greater political instabilities within the CEMAC.	**High** ● Adverse impacts on investment and economic activity, deterioration of credit terms, and upsurge in non-performing loans (NPL). ● Adverse impacts on bank profitability, liquidity, and solvency. ● Impact on additional fiscal costs (security expenditure, influx of refugees) or decline in fiscal revenue, leading to deterioration of the business climate and a downturn in foreign investment.
3. Liquidity shock on the banking sector.	**Low** ● Weak banks find it difficult to deal with liquidity shocks. ● Marked fluctuations in the banking deposits of hydrocarbons sector	**Medium to high** ● Adverse impacts on investment and economic activity, deterioration of credit terms and upsurge in NPL. ● Adverse impacts on bank profitability,

[15] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of FSAP team). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities.

Risk	Probability	Consequences
	customers.	liquidity, and solvency.
4. Lengthy delays in the implementation of national and regional reforms in the CEMAC.	**Medium** ● Delays in the reforms aimed at solving BEAC/CEMAC governance problems. ● Lack of political will to go against special interests, thereby hampering the adoption of the necessary fiscal and structural reforms. ● Low implementation capacity and delays caused by red tape at the national and regional levels ● Lags in the reforms as a result of the relocation of the CEMAC and the COBAC.	**Medium to high** ● Inaction could slow the financial sector reform and delay problem solving pertaining to banks in difficulty in some of the countries. ● The expenditure increase necessary for solving problems related to banks in difficulty could widen the fiscal deficits in certain countries (Cameroon and Gabon). ● Modest progress in the public financial reforms may continue to limit the financing and growth of private investment and diversification of the regional economy, thus diminishing the financial sector's development potential. ● Larger withdrawals from some member countries that decide not to repatriate their reserves push the region's reserves at the BEAC downward, which would force the authorities to devalue the XFA. Foreign currency asymmetries generate payment defaults, which would compromise the banking sector's position.
5. Severe devaluation of the XFA against the euro.	**Low** ● National and international crisis of confidence in XFA sustainability. ● Perception of the XFA/euro real exchange rate as high. ● Non-compliance with requirements for the pooling of reserves, leading to a concerted push toward abandonment of the Union. ● Unexpected policy decisions.	**High** ● Adverse impacts on investment and economic activity, the worsening of credit terms, and an upsurge in NPL. ● Adverse indirect impacts on bank profitability, liquidity, and solvency.

Appendix IV. Stress Testing Matrices for Banking Sector

<table>
<tr><th colspan="2">Domain</th><th>Assumptions</th></tr>
<tr><th colspan="3">Banking Sector: Solvency risk – Top-down by FSAP team</th></tr>
<tr><td rowspan="3">1. Institutional Perimeter</td><td>Institutions included</td><td>• All CIs apart from CAR's banks and one Gabonese bank (45 banks and 8 financial institutions).</td></tr>
<tr><td>Market share</td><td>• 98.1 percent of total assets in the sub-region.</td></tr>
<tr><td>Data and baseline date</td><td>• Balance sheets as at September 2014 and income statements certified as at June 20114.</td></tr>
<tr><td rowspan="3">2. Channels of Risk Propagation</td><td>Methodology</td><td>• COBAC methodology for calculating the solvency ratio.</td></tr>
<tr><td>Satellite models for macrofinancial linkages</td><td>• Due to data limitations, expert judgment based on cross country examples.</td></tr>
<tr><td>Stress test horizon</td><td>• Point in time.</td></tr>
<tr><td rowspan="2">3. Tail Shocks</td><td>Scenario analysis</td><td>• Static scenario 1: Substantial increase in socio-political and security troubles impacting CEMAC
Countries face worsening socio-political troubles and NPLs in banks increase, deposits decline, certain assets' value drops, and operating costs increase.
• Static scenario 2: Sharp economic slowdown due to falling energy and commodity prices
Declining energy and commodity have a large impact on government revenue, entailing an increase in government indebtedness (the convergence criteria deteriorate), an economic slowdown, which affect the financial system. There is also an across-the board decline in the incomes of households and private enterprises (specifically extractive industries, construction and public works), leading to increased NPLs.</td></tr>
<tr><td>Sensitivity analysis</td><td>Combination of single factor shocks (calibration on the basis of expert judgment)
• Scenario 1: (i) 15 percent decline in performing loans which become NPLs for construction and public works, telecommunications and transport, trade, households, and general government; (ii) 30 percent decrease in the volume of all deposits; (iii) 20 percent increase in general operating costs on account of security expenditures; and, (iv) 5 percent loss of value of tangible fixed assets and 15 percent decrease in cash
• Scenario 2: (i) 15 percent decline in performing loans that become NPLs for extractive activities, construction and public works, households, telecommunications and transport, and general government; (ii) Decrease in public sector deposits (50 percent), nonfinancial enterprises (25 percent), financial institutions and other economic sectors (10 percent) (including a decrease in cash); (iii) 30 percent increase in loans to extractive activities, construction and public works, households, telecommunications and transport, and general government (including decrease in cash); and, (iv) Deterioration in convergence criteria by two levels.
Sets of single factor shocks (several variations tested, allowing to determine a breakeven point)
• Decrease in performing loans that become NPLs in the aggregate, for the public sector and for extractive activities, construction and public works, households, telecommunications/transport, and general government
• Increase in debtor accounts in the aggregate and for extractive activities, construction and</td></tr>
</table>

		public works, households, telecommunications/transport, and general government • Deterioration in convergence criteria • Increase and decrease in the USDXAF, and devaluation of the XAF against the EUR • Increase in deposit interest rate • Decrease in cash, increase in general operating costs, and losses on tangible fixed assets • Decrease in commissions
4. Risks and Buffers	Risks/factors assessed (How each element is derived, assumptions)	• Expert judgment for scenarios and their calibration • Not applicable to single factor shocks
	Behavioral adjustments	None
5. Regulatory and Market-Based Standards	Calibration of risk parameters	• Expert judgment for scenarios and their calibration • Not applicable to single factor shocks
	Regulatory/Accounting and Market-Based Standards	• COBAC regulations
6. Reporting Format	Output presentation	• Solvency ratio in the aggregate and by subgroup
Banking Sector: Liquidity risk - Top-down by FSAP team		
1. Institutional Perimeter	Institutions included	• All CIs except for CAR's banks and one Gabonese bank (45 banks and 8 financial institutions).
	Market share	• 98.1 percent total balance sheets in the sub-region.
	Data and baseline date	• Balance sheets as at September 2014 and income statements certified as at June 2014.
2. Channels of Risk Propagation	Methodology	• COBAC methodology for calculating the liquidity ratio.
	Satellite models for macrofinancial linkages	• Due to data limitations, expert judgment based on cross country examples.
	Stress test horizon	• Point in time.
3. Risks and Buffers	Risks	Occurrence of scenarios.
	Buffers	None.
4. Tail Shocks	Size of the shock	**Combination of single factor shocks (calibration on the basis of expert judgment)** • Scenario 1: o 15 percent decline in performing loans that become NPLs for construction and public works, telecommunications/transport, trade, households and general government. o 30 percent decrease in volume of all deposits. o 20 percent increase in general operating outlays on account of security expenditures. o Loss of value of tangible fixed assets (5 percent) and cash (15 percent). • Scenario 2: o 15 percent decline in performing loans that become NPLs for extractive activities, construction and public works, telecommunications and transport, and general government. o Decrease in public sector deposits (50 percent), nonfinancial enterprises (25 percent), financial institutions and other economic sectors (10 percent) (including a decrease in cash), 30 percent increase in debtor accounts for extractive activities, construction and public works, households, telecommunications/transport, and general government

		(including a decrease in cash). ◦ Deterioration in convergence criteria by two levels. **Single factor shocks (several variations were tested, allowing to determine a breakeven point)** • Decline in deposits in the aggregate and for the public sector • Decrease in performing loans becoming NPLs for public sector, extractive activities, construction and public works, households, telecommunications/transport, and general government. • Decrease in cash. • Increase and decrease in the USDXAF, and devaluation of the XAF against the EUR.
5. Regulatory and Market-Based Standards	Regulatory standards	• COBAC regulations
6. Reporting Format	Output presentation	• Liquidity ratio in aggregate and by subgroup

Appendix V. Stress Testing Matrices for Microfinance Institutions

Domain		Assumptions
		Top-down by FSAP team
Microfinance Sector: Solvency risk		
1. Institutional Perimeter	Institutions included	• Sample of 8 MFIs.
	Market share	• At least 50 percent of total assets.
	Data and baseline date	• Balance sheet and income statements as at June 2014 (December 2013 for one MFI).
2. Channels of Risk Propagation	Methodology	• COBAC methodology for calculating the solvency ratio.
	Satellite models for macrofinancial linkages (MLs)	• Due to data limitations, expert judgment based on cross country examples was used.
	Stress test horizon	• Point in time.
3. Tail Shocks	Scenario analysis	None.
	Sensitivity analysis	**Single factor shocks (several variations were tested to determine a breakeven point)** • Decrease in performing loans that become nonperforming loans. • Increase in remuneration on term deposits. • Decrease in interest rate on loans. • Decrease in commissions. • Increase in operating costs (including personnel expenditures)
4. Risks and Buffers	Risks/factors assessed	• N/A
	Behavioral adjustments	None
5. Regulatory and Market-Based Standards and Parameters	Calibration of risk parameters	N/A
	Regulatory/Accounting and Market-Based Standards	COBAC regulations.
6. Reporting Format for Results	Output presentation	Solvency ratio for each MFI.
Microfinance Sector: Liquidity risk		
1. Institutional Perimeter	Institutions included	• Sample of 8 MFIs.
	Market share	• At least 50% of total assets.
	Date and baseline date	• Balance sheet and income statements as at June 2014 (December 2013 for one MFI).
2. Channels of risk Propagation	Methodology	• COBAC methodology for calculating the liquidity ratio.
	Satellite models for MLs	• Due to data limitations, expert judgment based on cross country examples was used.
	Stress test horizon	• Point in time.
3. Risks and Buffers	Risks	Occurrence of shocks
	Buffers	None
4. Tail Shocks	Size of the shock	**Single factor shocks (several variations were tested to determine a**

		breakeven point) • Decline in deposits in the aggregate. • Decrease in cash. • Decrease in performing loans that become nonperforming loans.
5. Regulatory and Market-Based Standards and Parameters	Regulatory standards	• COBAC regulations.
6. Reporting Format for Results	Output presentation	• Liquidity ratio for each MFI

Annex Table 1. CEMAC: Selected Economic and Financial Indicators, 2013-20

	2013	2014	2015	2016	2017	2018	2019	2020
		Estim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(Annual percent change)				
National income and prices								
GDP at constant prices	2.4	4.7	2.8	4.7	5.1	4.1	3.5	3.5
Oil GDP	-8.0	2.7	0.5	7.2	9.9	2.1	-4.7	-4.2
Non-oil GDP	4.6	4.7	3.6	4.3	4.4	4.5	4.6	4.7
Consumer prices (period average)[1]	2.0	2.5	1.9	1.9	2.1	2.1	2.0	2.0
Consumer prices (end of period)[1]	2.4	2.6	2.5	2.4	2.5	2.5	2.5	2.5
Nominal effective exchange rate[1]	3.2	1.3	...	...	...	...	...	...
Real effective exchange rate[1]	3.6	2.1	...	...	...	...	...	...
		(Annual changes in percent of beginning-of-period broad money)						
Money and credit								
Net foreign assets	-0.4	-7.4	-1.8	-1.5	2.5	5.7	1.5	-0.3
Net domestic assets	9.0	17.0	5.8	5.4	2.9	0.2	5.9	6.7
Broad money	9.3	9.6	4.0	4.0	5.5	5.9	7.5	6.4
			(Percent of GDP, unless otherwise indicated)					
Gross national savings	25.1	24.4	21.7	22.2	22.7	22.8	21.8	21.7
Gross domestic investment	30.6	31.3	31.2	29.2	27.1	26.4	26.1	26.2
Of which: public investment	14.5	13.2	11.9	10.4	9.5	9.1	9.3	8.9
Government financial operations								
Total revenue, excluding grants	26.8	24.8	21.7	22.4	22.5	23.4	23.2	22.8
Government expenditure	30.3	29.7	27.4	26.1	24.8	24.6	24.9	24.7
Primary fiscal basic balance[2]	0.3	-1.2	-0.8	1.3	1.9	2.6	2.1	1.9
Basic fiscal balance [3]	-0.3	-1.8	-1.7	0.4	0.9	1.6	1.0	0.8
Overall fiscal balance, excluding grants	-3.5	-5.0	-5.7	-3.7	-2.4	-1.2	-1.8	-1.9
Primary fiscal balance	-2.3	-3.6	-3.9	-2.0	-0.8	0.3	-0.2	-0.3
Non-oil overall fiscal balance, excluding grants (percent of non-oil GDP)	-29.1	-26.3	-19.0	-17.8	-16.7	-15.8	-15.4	-14.2
Non-oil primary fiscal balance (percent of non-oil GDP)	-27.3	-24.3	-16.8	-15.6	-14.6	-13.8	-13.4	-12.1
Total Public Debt	23.1	27.7	33.2	33.6	32.9	33.1	33.3	33.3
External sector								
Exports of goods and nonfactor services	53.8	50.5	45.4	47.3	47.4	46.3	44.1	41.5
Imports of goods and nonfactor services	40.4	40.8	40.5	39.7	37.8	37.0	36.2	34.7
Balance on goods and nonfactor services	13.4	9.8	4.9	7.7	9.6	9.3	7.8	6.8
Current account, including grants	-1.6	-3.8	-5.8	-3.9	-1.9	-1.5	-2.3	-2.5
External public debt	15.4	17.5	22.0	22.0	21.6	21.5	21.3	20.9
Gross official reserves (end of period)								
Millions of U.S. dollars	18,222	17,162	13,242	11,621	9,731	11,823	13,098	14,646
Months of imports of goods and services (less intra regional imports)	5.8	7.0	5.0	4.2	3.4	3.9	4.3	4.8
Percent of broad money	81.6	70.2	62.0	52.0	40.8	46.3	47.2	48.8
Memorandum items:								
Nominal GDP (billions of CFA francs)	45,576	46,717	44,294	48,044	52,496	55,381	57,905	60,325
CFA francs per U.S. dollar, average	494	494	588	585	578	571	565	557
Oil production (thousands of barrels per day)	893	915	924	981	1,066	1,081	1,028	988
Oil prices (US dollars per barrel)	104	96	59	64	67	70	71	71

Source: IMF staff compilations.

[1] Using as weights the shares of member countries in CEMAC's GDP in purchasing power parity US dollar.

[2] Excluding grants and foreign-financed investment and interest payments.

[3] Excluding grants and foreign-financed investment.

Annex Table 2. Financial Soundness Indicators, 2012-14

(in percentages) 1/

	Cameroon		Central African Republic		Chad		Congo		Equatorial Guinea		Gabon		CEMAC[1/]	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Capital adequacy														
Capital/risk-weighted assets	7.9	10.6	n.a.	n.a.	22.0	13.4	11.9	16.1	22.3	25.5	12.3	9.4	n.a.	n.a.
Base Capital/ risk-weighted assets	6.3	9.1	n.a.	n.a.	20.0	12.0	10.3	13.7	22.5	26.2	11.6	8.8	n.a.	n.a.
Non-performing loans less provisions/Equity	18.6	10.3	n.a.	n.a.	15.6	23.9	0.3	4.7	42.9	40.5	-0.3	0.2	n.a.	n.a.
Capital/Assets	3.6	3.3	n.a.	n.a.	12.3	8.9	8.2	4.5	4.0	4.1	9.2	9.1	n.a.	n.a.
Asset quality, profitability and liquidity														
Non-performing loans/total loans	10.3	9.7	n.a.	n.a.	9.8	11.7	1.2	2.5	20.1	19.7	2.7	4.1	n.a.	n.a.
Large exposures/equity	354.3	258.4	n.a.	n.a.	97.6	176.5	201.7	200.8	165.8	176.6	151.6	198.6	n.a.	n.a.
Results and profitability														
Return on Assets (ROA)	1.5	0.8	n.a.	n.a.	2.3	1.8	2.0	1.0	0.6	0.7	1.6	1.7	n.a.	n.a.
Return on Equity (ROE)	42.7	21.8	n.a.	n.a.	21.1	19.4	28.4	23.4	14.1	16.9	19.6	21.5	n.a.	n.a.
Liquidity														
Liquid assets/Total assets	9.4	9.0	n.a.	n.a.	24.0	25.7	25.2	17.1	17.7	15.6	20.0	19.0	n.a.	n.a.
Liquid assets/ST liabilities	127.6	139.5	n.a.	n.a.	139.3	152.9	142.7	182.9	220.2	194.0	125.2	112.9	n.a.	n.a.
Total deposits /Total loans (non interbank)	114.6	112.2	n.a.	n.a.	112.9	107.8	159.3	173.5	202.8	177.7	108.6	105.5	n.a.	n.a.

Sources: Banking Commission of Central Africa (COBAC).

[1/] Consolidated data for CEMAC has not been checked for methodological consistency by IMF's statistics department and authorities prefer not to release it.

Annex Table 3. Compliance with the Prudential Norms, 2012-14

	Capital Adequacy			Liquidity[1]			Fixed Assets[2]			Maturity[3] Transformation			Minimum[4] Capital			Limit on Single[5] large exposure		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
	8%			Min 100%						Min 50%								
Country (number of banks in 2012)	48	50	50	48	50	50	48	50	50	48	50	50	48	50	50	48	50	50
Cameroon (13)	5	5	4	1	2	3	8	5	4	5	5	4	5	5	3	9	7	5
Central African Republic (4)	0	0	0	1	1	0	0	0	0	0	0	0	1	2	0	2	3	2
Chad (8)	0	0	1	0	1	0	0	0	2	0	1	1	2	3	2	1	1	3
Republic of Congo (9)	2	1	0	1	0	0	1	1	1	0	1	1	1	3	1	3	2	2
Equatorial Guinea (4)	0	0	1	0	0	0	1	0	1	1	1	1	0	0	0	0	1	1
Gabon (10)	0	1	3	2	1	3	0	2	4	0	1	3	1	3	1	4	3	4
CEMAC (48)	7	7	9	5	5	6	10	8	12	6	9	10	10	16	7	19	17	17
									Percent of deposits[6]									
Cameroon (13)	21	28	24	2	4	21	46	28	24	19	28	24	19	n.a	9	37	41	29
Central African Republic (4)	0	0	0	17	17	0	0	0	0	0	0	0	22	n.a	0	38	91	24
Chad (8)	0	0	13	0	15	0	0	0	18	0	14	13	14	n.a	6	13	15	38
Republic of Congo (9)	19	3	0	7	0	0	3	5	2	0	3	2	3	n.a	0	61	52	4
Equatorial Guinea (4)	0	0	32	0	0	0	24	0	32	16	15	32	0	n.a	0	0	23	32
Gabon (10)	0	2	5	62	2	19	0	13	19	0	2	5	0	n.a	2	37	15	19

Source: Banking Commission of Central Africa (COBAC).

[1] Short-term assets of up to one month (remaining maturity) over short-term liabilities of up to one month (remaining maturity).

[2] Net capital and other premanent resources over fixed assets.

[3] Long-term assets of more than five years over long term liabilities of more than five years.

[4] Minimum capital varied by country until May 2010 (CFA millions): Cameroon 1000; Central African Republic 200; Chad 150; Republic of Congo 150; Equatorial Guinea 300; Gabon 1000. From June 2010, minimum capital is 5

[5] Single large exposure is limited to 45 percent of capital.

[6] Percentage of deposits represented by the number of banks in violation in the country.

Annex I. Report on the Observance of Standards and Codes—Basel Core Principles for Effective Banking Supervision

A. Introduction

1. This assessment of the compliance with Basel Core Principles (BCP) for effective banking supervision in the CEMAC was carried out as a part of the update of the FSAP of the CEMAC undertaken jointly by the IMF and the World Bank in 2015. It reflects the supervisory and regulatory framework in place as of the date of the completion of the assessment. It is not intended to represent an analysis of the state of the financial sector or the crisis management framework, which have been addressed in the broader FSAP exercise.

B. Background Information and Methodology

2. An assessment of the effectiveness of banking supervision requires a review of the legal framework, and a detailed examination of the policies and practices of the institution(s) responsible for banking regulation and supervision. In line with the BCP methodology, the scope of the assessment covered entities subject to supervision of the Banking Commission of Central Africa (COBAC), mainly CIs (i.e. banks and financial companies) and MFIs.

3. This assessment is not directly comparable to previous assessments. This assessment was performed according to the Revised Core Principles Methodology issued by the Basel Committee of Banking Supervision (BCBS) in September 2012. It was, therefore, performed according to a significantly revised content and methodology as compared with the previous BCP assessment carried out during the 2006 FSAP. This assessment was based on former BCP methodology, and the bar has been raised to strengthen supervisory requirements and approaches. The new BCPs heightened focus on risk management practices by supervised institutions and its assessment by the supervisory authority.

4. The standards were evaluated in the context of the CEMAC financial system's structure. The BCPs are applicable to a wide range of jurisdictions whose banking sectors inevitably include a broad spectrum of banks. To accommodate this breadth of application, according to the methodology, a proportionate approach is adopted, both in terms of the expectations of supervisors for the discharge of their own functions and in terms of the standards that supervisors impose on banks. An assessment of a jurisdiction against the BCPs must, therefore, recognize that its supervisory practices should be commensurate with the complexity, interconnectedness, size, risk profile, and cross-border operations of supervised banks. The concept of proportionality underpins all assessment criteria. For these reasons, an assessment of one jurisdiction will not be directly comparable to that of another.

5. The CEMAC authorities chose to be assessed against both the Essential and Additional BCP criteria but rated against the Essential Criteria only. In order to assess compliance, the BCP methodology uses a set of essential and additional assessment criteria for each principle. Only the essential criteria (EC) were used to gauge full compliance with a BCP. The additional criteria (AC) are recommended best practices against which the CEMAC authorities have agreed to be assessed but not rated.

6. **The assessment of compliance with each BCP is made on a qualitative basis to allow a judgment on whether the criteria are fulfilled in practice**. Effective application of relevant laws and regulations is essential to provide indication that the criteria are met. The assessors reviewed the framework of laws, rules, and other materials provided and held extensive meetings with officials of the SG-COBAC, senior management of some CIs, professional associations, and external auditors. The authorities provided a self-assessment of the BCPs, as well as access to supervisory documents and files.

7. **An assessment of compliance with the BCPs is not, nor intended to be, an exact science.** Reaching conclusions required judgments by the assessment team. Nevertheless, by adhering to a common, agreed methodology, the assessment should provide the CEMAC authorities with an internationally consistent measure of the quality of its banking supervision in relation to the BCPs, which are internationally acknowledged as minimum standards.

8. **The assessors appreciate the cooperation shown by the authorities.** The team extends its thanks to staff of the authorities who provided good cooperation, including provision of documentation and access to files, despite the challenges posed by the recent move of the COBAC to Libreville and the shortage in supervisory staff.

C. Overview of the Institutional Setting and Market Structure

9. **While COBAC is the main body responsible for supervision of CI and MFI, some of its attributions are shared with other regional or national institutions of the CEMAC.** COBAC monitors the compliance of CI and MFI with applicable laws and regulations and applies sanctions in cases of non-compliance or weaknesses. The Ministerial Committee of the Monetary Union of Central Africa (UMAC) adopts the regulations and directives to ensure the harmonization of banking regulatory framework in the region. These regulations are proposed by the governor of the Central Bank of Central African States (BEAC) after assent by its board of directors. They are then published in the Official Bulletin of the Community. Licensing of CIs and MFIs is pronounced by the monetary authority[16] of each country, with the assent of the COBAC. License withdrawal is also pronounced by the monetary authority except in disciplinary proceedings where COBAC has these powers after informing the monetary authority.

10. **COBAC is chaired by the governor of the BEAC, assisted by the vice-governor, and comprises a general secretariat (SG-COBAC), headed by a secretary-general, who is assisted by an assistant secretary-general.** In addition to the governor, COBAC has a board comprised of eleven members. Six represent the various CEMAC member countries with a seventh revolving

[16] The monetary authority is the ministry in charge of economy and credit in each member country.

member. Three members are BEAC censors and the last member represents the French authority of prudential control and resolution (ACPR).

11. The financial system of the CEMAC is dominated by commercial banks, with foreign banks controlling approximately 50 percent of total banking sector assets. There are a total of 50 banks, eight financial institutions, and more than 700 MFIs. The banking system is strongly concentrated with the largest three banks of each country holding more than 70 percent of the total banking assets. Cross-border banks (whether incorporated in the CEMAC or originating from other African regions) are gaining increasing importance in the banking sector. Banks' activities are not well diversified and not sufficiently adapted to the developmental needs of the economies.

12. Banks' assets in CEMAC have been witnessing a considerable growth since 2006. By the end of 2013, banks' assets constituted around 26.3 percent of the zone GDP compared to only 15.7 percent in 2004. While the growth of credit to GDP ratio was relatively lower, loan-to-deposit ratio has mounted from 57 percent in 2010 to 67 percent in 2013. Most banks' credits are of short and medium term nature and their financing comes mainly from customers' deposits.

13. While banking sector prudential ratios are reported at acceptable levels, a significant number of banks are in breach of the regulatory and prudential limits. Banking sector capital adequacy reached 13.8 percent at end September 2014 compared to a minimum requirement of eight percent. Gross NPLs reached 9.1 percent of Gross total loans and net NPLs amounted to 57.9 percent of banks' regulatory capital. A significant number of banks are in violation of prudential norms particularly capital adequacy, concentration limits, and connected parties lending.

D. Preconditions for Effective Banking Supervision

14. The lack in economic diversification (due to the high reliance on hydrocarbon products) and the relative importance of the public sector entities are main marks of the CEMAC economic environment. While this can bring some advantages in specific circumstances, it also poses risks and causes volatility in periods of fluctuating or decreasing oil prices. These risks have historically manifested in shocks on public finances and payment arrears to companies and banks. CEMAC countries have been increasingly issuing treasury bonds to meet their financing needs and these were mostly subscribed by banks. CFA Franc (FCFA) exchange rate is pegged to the euro in the context of monetary cooperation with France.

15. While BEAC is in charge of financial stability, developing such a framework is still work in progress. An FSC has been established in which the COBAC is also a member. On the operational level, there are no mechanisms or processes for cooperation among different members of the FSC, including with the COBAC who should be responsible for the stability of the banking sector. There are also no clear strategies for putting in place a crisis management framework and systemic risk oversight processes.

16. The legal environment constitutes one of the challenges for developing financial and banking activities in the CEMAC. While some legal framework weaknesses have been addressed through the adoption of the acts established by the organization for the harmonization of business law in Africa (OHADA), enforcement of the laws and rules remains deficient: banks and other financial institutions still face substantive delays in securing their legal rights and in enforcing collaterals and guarantees. This may be due to lack in processes and controls to establish justice effectively, insufficient training and capacity building of judges, and sometimes integrity and governance issues.

17. While the accounting framework for non-financial firms is established by OHADA (not in line with IFRS), COBAC is in charge of mandating accounting rules for CI and MFI. These rules are defined in regulation COBAC R-98/01 for banks and COBAC EMF-2010/01 for MFI. COBAC rules govern also accounting consolidation rules and publication of financial statements accounts. External auditors are required for all firms with total assets exceeding 50 billion FCFA. The external audit profession is still not very well organized and overseen, which impacts the quality and usefulness of some of external audit reports.

18. A regional deposit guarantee fund (FOGADAC) created in 2009 has started its operations in February 2011. FOGADAC is overseen by a board of directors composed of BEAC governor and the six presidents of major banking associations. Two types of interventions are possible: (i) compensation of depositors in case of bank failure (up to five million FCFA maximum by depositor and bank) and (ii) financing resolution of banks in distress. To date, the fund was never called upon. Some limitations remain in this aspect mainly: the absence of operational procedures at the COBAC to ensure a successful deposit compensation process, lack of data on insured deposits, uncertainty on the effective range cover provided, and absence of consultation and coordination procedures in a financial safety net context.

19. The banks' crisis management and resolution frameworks are weak in the CEMAC. While the current framework provides COBAC with many prerogatives, it does not exert them on a timely and consistent basis. These dysfunctions are amplified by the presence of systemic banks that have developed cross-border activities, in the absence of an adequate framework for cross-border resolution.

20. While a newly adopted regulation on dealing with problem banks constitutes a considerable step forward, this needs to be complemented by coordination mechanisms among authorities concerned with the resolution of banking groups. A new CEMAC regulation on problem banks has been adopted in 2014 but its effective implementation depend on converged interests among COBAC and monetary authorities when it comes to assess systemically important banks, and trigger factors for bank restructuring. Moreover, resolution of banking groups, including those operating in various CEMAC countries, still needs development in order to entrust COBAC with a preeminent role in ensuring a diligent management and orderly resolution of problem banking groups.

21. Market discipline is weak and does not play its expected role in setting competitive prices, removing bad performers, and, thereby, promoting financial sector development. Major banks in the region are mainly deposit-financed with limited prospects in raising funds from the financial markets that are still at an embryonic stage. There are no external credit rating agencies or a well developed profession of financial analysts. Publication requirements of financial information and reports are still limited (whether by public enterprises, privately held non-financial corporations, or banks) and often not well respected.

E. Key Findings

22. The supervisory and regulatory framework in the CEMAC shows a poor level of compliance with the BCPs. This is due to various challenges and weaknesses with respect to the powers and responsibilities of the COBAC, the functions and processes employed by SG-COBAC, and limitations in the existing prudential framework and its enforcement.

23. The allocation of roles and responsibilities among the supervisory institutions is less than optimal and is not conducive to an efficient interplay of national and regional interests. There are a number of areas where a reconfiguration of the respective roles of the regional and national authorities should be considered:

- **Missions**. Ensuring banking system stability is not included among COBAC objectives, an issue that should be revisited in current legislation. Despite that the COBAC Secretary General is a member of the FSC, the sharing of responsibilities and of associated data between the COBAC/SG-COBAC, on one hand, and the BEAC, on the other hand, warrants further clarification.

- **Independence.** The institutional independence of the COBAC, particularly its Board, warrants further strengthening. This can be done by having a more structured and competitive nomination process for board members to ensure a certain level of financial sector expertise and minimum criteria for competence and avoidance of conflict of interest. Consideration should also be given to introducing modalities that could increase the COBAC's transparency and accountability.

- **Processes for adopting new regulation.** The rules and practices governing the development and approval of prudential regulations are too complicated. The multitude of intervention layers (first by the COBAC, next by the BEAC Board, then by the ministerial committee, and finally by the CEMAC Commission) causes many delays that could be shortened without necessarily diluting respective powers.

- **Sanctions**. Enforcement of prudential regulation and corrective action framework is still lacking. While the new regulation on problem banks addresses weaknesses in the regulatory framework, its effective enforcement requires adoption of more objective and transparent processes. The authorities should consider establishing a sanctions committee, a more focused body, whose specific composition would reflect the needed skills and competencies (e.g., greater representation of persons possessing adequate legal experience).

24. While some improvement has been achieved in enhancing the regulatory framework, much more needs to be done to better align the regulations with international standards. It is therefore important to continue the process of reviewing certain key regulations, especially in the following areas:

- **Capital Adequacy**. The capital adequacy regulation should be revised to provide a more clear definition of capital components and more accurate and sensitive risk weights to assets and exposures.

- **Connected party lending and concentration risk.** The definition of connected parties in the current regulations is not sufficiently comprehensive and precise, and is not also well enforced. This issue, underlined since the 2006 FSAP, remains a high priority since it was a source of recent banking and MFI crises in the region. Similarly, the limits on large exposure, particularly lax compared to international standards, need to be tightened.

- **Consolidated and cross-border supervision**. The recent adoption of a regulation on consolidated supervision is a significant progress. However, authorities should now move quickly on the adoption of the accompanying texts and processes and procedures to implement this regulation. As regards cross-border supervision, the SG-COBAC should undertake more joint inspection missions with host supervisors of subsidiaries of cross-border banking groups incorporated in the CEMAC, organize supervisory colleges for these groups, and sign the pending draft cooperation agreements with foreign supervisory authorities.

- **Risk management**. COBAC regulations on management of banking risks are generic and not well adapted to main risks inherent in banks' activities. Moreover, banks have generally weaknesses in their risk management frameworks and systems. The COBAC should, therefore, draft regulations on risk management in general, and the management of specific risks (liquidity, interest rate in the banking book, and market risks). In addition, the SG-COBAC should better enforce these rules.

- **Transparency.** Transparency in the financial sector should also be urgently improved. CIs should be required to (i) publish annual reports within reasonable time spans, presenting their financial position as well as their governance and risk management framework; and (ii) apply an accounting framework consistent with international standards.

25. SG-COBAC is still faced with operational and procedural challenges in effectively supervising CI and MFI. The main challenges relate to the availability of a constantly adequate level and number of staff, and the adoption of a risk-based approach to supervision that relies on a balanced mix of coordinated onsite and offsite activities based on a formalized set of procedures. Key findings in this regard are:

- **Staffing**. The significant increase in staffing that occurred soon after the BCP compliance assessment mission constitutes remarkable progress toward addressing an endemic shortage that endured since at least 2001. An assessment of the adequacy of supervisory resources should be now performed in light of the current responsibilities in a region comprising six countries, the number and complexity of CI and MFI to be supervised, and the challenges posed by the continuing evolution in international supervisory standards. At the time of the mission, many posts of division heads were vacant and assumed by acting people. This hinders the routine functioning of SG-COBAC given the importance of these middle management positions in steering the work of the institution. It is, therefore, critical to ensure that adequacy of SG-COBAC staffing, at all levels (including middle management level), does not continue to pose constraints on its ability to perform its duties, which may lead the national monetary authorities to question the relevance of the regional framework.

- **Supervisory approach**. The supervisory process is primarily compliance-oriented. The prudential tools used by the SG-COBAC therefore need to be overhauled with a view to introduce risk-based supervision (i.e., based on a forward-looking assessment of the institutions' risk profile depending on their systemic importance and according to a balanced interaction and effective cooperation between offsite supervision and on-site inspection). These requirements are still not being addressed by the existing tools and processes. In addition, assessments of banking system risks are not systematically done and not thorough enough to enable a good assessment of systemic risks and their impact on the sector.

Table 1. Summary of Compliance with the BCPs

Core Principle	Overall Comments
1. Responsibilities, objectives, and powers	• COBAC mandate does not expressly include safeguarding the stability of the banking system. Delays in the development of regulations and their adoption as well as more general delays in decision making at the COBAC Board weaken the supervisory framework in the CEMAC. Some regulations are not updated or published on the website of the BEAC or COBAC.
2. Independence, accountability, resourcing and legal protection for supervisors	• Shortage in supervisory staff at SG-COBAC persists since at least 2001. While the recent staffing reinforcement at end 2014 is a significant improvement, there is a need to assess the adequacy of current staffing levels vis-à-vis the various regional responsibilities of SG-COBAC. Moreover, some middle management positions were vacant at the time of the mission and assumed by acting people, a situation that can impact the proper functioning of SG-COBAC if it persists. • COBAC independence merits further enhancement through having a more diversified mix of members with different competences and expertise. The role of the vice-governor in the board also merits further delineation. • Greater autonomy of COBAC in managing its resources and needs is also needed in light of its increasing responsibilities.
3. Cooperation and collaboration	• Relations between COBAC and national ministries of finance should be formalized. It is also necessary to formalize the relations between the COBAC and other financial supervisory authorities in the region in order to facilitate exchange of information and cooperation.
4. Permissible activities	• The list of licensed institutions should be maintained up-to-date and published on COBAC website.
5. Licensing criteria	• The current licensing framework is weak in several aspects: no fixed time limit for transmission of licensing applications by the national monetary authorities to COBAC, inability of COBAC to receive directly these applications, and no explicit indication that COBAC opinion binds monetary authority. Licensing criteria need to be completed and supplemented by more detailed regulatory requirements to ensure more coherence between authorized activities, type of licenses, composition of shareholders and adequacy of capital. A new draft licensing regulation has been adopted by COBAC and waits to be approved.
6. Transfer of significant ownership	• COBAC does not have powers to prohibit use of voting rights acquired in infringements of applicable regulations (crossing of certain thresholds or acquisition of control over a supervised institution without COBAC prior consent).
7. Major acquisitions	• Except the acquisition of certain participations in CI, the regulations do not subject banks' major acquisitions or investments to the prior authorization of COBAC.
8. Supervisory approach	• COBAC supervisory approach is still compliance based and does not rely on a fully risk-based methodology that takes into consideration the risk profile of the institution and its systemic importance. SYSCO 1, a system that is utilized to rate the risk of banks, contains many weaknesses and is not sufficiently risk-sensitive.
9. Supervisory techniques and tools	• The supervisory tools and techniques employed by COBAC suffer from many deficiencies notably: (i) the shortage in staff, particularly experienced ones, which hamper the efficient performance of COBAC duties (this has been partially addressed by the allocation of around 20 new recruits to SG-COBAC at end 2014); (ii) a compliance-based approach that does not consider the main risks inherent in activities of CI and MFI; (iii) an offsite function that is increasingly focused on monitoring banks in infringement of

	regulations without due consideration to its expected proactive role; (iv) an inspection approach that focuses mainly on compliance aspects and an inspection planning process that is not well tailored to the risk profile of institutions; (v) insufficient interaction with banks' senior management; and (vi) absence of uniform methodologies for supervision of CI and MFI according to formalized and approved procedural manuals.
10. Supervisory reporting	• While CI supervisory reporting fills to a large extent the supervisory needs of COBAC, the reporting system can be still improved to address some deficiencies. The MFI reporting system needs also further strengthening.
11. Corrective and sanctioning powers of supervisors	• While COBAC has suited corrective action and sanction powers, it resorts to such action very late often after the failure of many restructuring plans. Many institutions showed negative equity for considerably long periods before being effectively addressed. While a new regulation on dealing with problem banks enhances COBAC supervisory and regulatory framework in this respect, it is still premature yet to conclude that this regulation is fully implemented.
12. Consolidated supervision	• The regulatory framework remains applied on the standalone basis without any prudential requirements on consolidated basis. While regulations require CI to prepare their financial statements on consolidated basis, this only applies to the accounting position. A new regulation on consolidated supervision, which was still in draft status at the time of the mission, seems to have been formally adopted recently. While this addresses many deficiencies in the regulatory framework, it needs to be supplied with additional application guidance and be effectively enforced.
13. Home-host relationships	• While the COBAC has signed cooperation agreements with some foreign supervisory authorities, the actions taken in this regard are still not in full compliance with the requirements of this principle. Moreover, the COBAC has not performed an adequate level of joint inspection missions over the foreign subsidiaries of cross-border banks incorporated in the CEMAC. No college of supervisors has also been conceived for these groups, an issue that COBAC indicated is now planned during the course of 2015.
14. Corporate governance	• While existing regulations impose a certain set of requirements for the governance of supervised institutions, the implementation of these regulations is still deficient in many respects, mainly in: the lack of corporate governance charter, the absence or inaction of many required board-level committees, and the inexistence of independent board members . The current regulations are also lacking in some aspects mainly: fixing a minimum level of independent non-executive board members, requiring additional board-level committees particularly for systemic institutions, setting guidelines for the remuneration policy and practices of board members and linking this with the risk-taking practices of the firm.
15. Risk management process	• The regulatory framework and the existing risk management practices in the banking sector are still lacking in many aspects, mainly: the adequacy of risk management policies relative to the risk profile and systemic importance of CI, the adequacy of existing risk management reports on degree and nature of risk exposures and their communication to senior management and board, the design of an internal framework and procedures (particularly for systemic CI) to assess the adequacy of capital and liquidity relative to the risk profile of the CI, and the existence of an adequately independent and resourced risk management function (also mainly for systemic CI).
16. Capital adequacy	• The existing capital adequacy requirements are not aligned with international standards and the criteria of this principle. The main insufficiencies relate to the loose requirements in definition of regulatory capital components (for both tier 1 and 2 capital) and sensitivity of some risk-weights applied to certain exposures.
17. Credit risk	• The existing regulatory framework and supervisory practices appear generally in line with the requirements of this principle. However,

	there is still possibility for improvement regarding: the need to require banks' board of directors to approve exposures exceeding a certain threshold, a higher quality assessment of the credit risk management framework of CI in the notes prepared by inspectors following their inspection missions, and the need to require CI to perform stress tests related to credit risk.
18. Problem assets, provisions, and reserves	• While a new regulation was adopted on loan classification and provisioning and entered into effect at the beginning of 2015, the assessment was made at the level of the framework that was in force at the time of the BCP mission in November 2014. The provisioning requirements were relatively lax compared to international requirements and do not truly reflect the expected losses on non-performing loans. The existing regulations also did not impose any provisioning on unpaid loans that are still classified as performing and did not contain any specific requirements for restructured debt. The new regulation brings many enhancements namely: higher and more adequate provisioning levels, general provisions for performing loans and specific criteria for restructured debt. While these enhancements align further the regulatory framework to international standards, they need to be fully applied and ultimately revisited to address some remaining weaknesses.
19. Concentration risk and large exposure limits	• The regulatory framework remains unsuited particularly in light of the excessively high limits imposed on large exposure which are much laxer than international standards.
20. Transactions with related parties	• While many problems faced by CI and MFI result from their related party transactions, the existing regulatory framework is still deficient in many aspects, mainly the definition of related parties.
21. Country and transfer risks	• The risk management policies and systems of CI do not adequately address or target the country and transfer risks. There are also no regulatory requirements or guidance in this respect. The existing supervisory practices do not also address such risks.
22. Market risk	• While the markets risks of CI are still confined to foreign exchange risk at this stage, these risks, which may evolve in the future, deserve a more proactive approach by authorities to address them. Foreign exchange prudential limits are also considered high and need to be more adequately and regularly monitored by COBAC.
23. Interest rate risk in the banking book	• Despite the relevance of this risk factor for CI in CEMAC, the existing prudential norms are largely insufficient. The reports sent by CI to COBAC and the published reports by CI do not include adequate information on this risk.
24. Liquidity risk	• The prudential norms and regulatory framework for liquidity risk are not well aligned with this principle's criteria. The existing minimum regulatory liquidity ratio does not precisely depict the liquidity risk profile of CI. The existing regulations on liquidity risk management do not include many provisions listed in this principle, namely: designing refinancing strategies, setting funding contingency plans, performing stress tests, etc… Inspection procedures do not sufficiently cover the adequacy of liquidity risk management framework employed by CI.
25. Operational risk	• The current regulatory framework seems to be outdated and does not adequately cover the existing operational risks of CI. Moreover, operational risk is not usually assessed by inspectors during their inspection missions to CI.
26. Internal control and audit	• While the regulatory requirement and the existing internal control and audit practices are generally satisfactory, the authorities should further refine the existing requirements to ensure more alignment with the criteria of this principle and international standards.
27. Financial reporting and external audit	• The financial statements of CI are prepared according to the chart of accounts required by COBAC which significantly diverges from recognized international standards such as IFRS. The COBAC does not also have a clear operational framework to assess the work of external auditors and take measures or actions in case of non-compliance with requirements or deficiency in their work. Rotation of external auditors is also not envisaged in existing requirements.

28. Disclosure and transparency	• The publication and transparency of financial information is still deficient. While COBAC is required to ensure that CI regularly publish their accounts in line with certain requirements, it has not defined the required templates in this respect. COBAC periodic reports are also published with excessive delays.
29. Abuse of financial services	• COBAC needs to follow more closely the application of existing regulations by CI and take adequate corrective actions in case of infringements.

Table 2. Summary of Key Recommended Actions	
Core Principle	**Key Recommended Action(s)**
1.Responsibilities, objectives, and powers	• Adopt a speedier and less complicated process for the drafting and adoption of regulatory texts. • Give COBAC the power to impose stricter prudential requirements on certain supervised institutions depending on their risk profile and systemic importance • Revise COBAC mandate to include safeguarding stability of the banking system
2. Independence, accountability, resourcing and legal protection for supervisors	• Assess the adequacy of the SG-COBAC new staffing levels and continue reinforcements further if needed • Fill the vacant middle management positions at SG-COBAC with competent and experienced people as quickly as possible • Enhance the budgetary autonomy of COBAC, notably in managing its resources and needs • Diversify the composition of COBAC board members and establish a nomination process based on skills in terms of competence, expertise and ethics. • Consider the establishment of a dedicated sanctions committee
5. Licensing criteria	• Require a specific deadline for transmission of CI licensing applications by the monetary authorities to COBAC and require that COBAC opinion binds their decision. • Review and complete the licensing criteria by publishing a template for new licensing applications and anticipating the possibility to issue conditional licenses. • Develop a procedural manual for assessing licensing applications
6. Transfer of significant ownership	• Ensure that COBAC has adequate control over ultimate beneficiaries of significant shareholders and that it can prohibit the exercise of voting rights acquired in violation to existing regulations.
7. Major acquisitions	• Subject all participations or investments in CI to prior approval of COBAC • Require that banks' major acquisitions or investments be subject to COBAC prior consent if they exceed defined thresholds and define the criteria upon which COBAC bases its decisions in this respect.
8. Supervisory approach	• Continue the testing on the new SYSCO2 risk assessment tool and ensure that it is sufficiently risk sensitive in view of its ultimate adoption and integration in the supervisory process. • Perform more thorough analysis on banking sector risks and activities in order to analyze risk tendencies and vulnerabilities at the level of the banking sector and take appropriate preventive or remedial actions.
9. Supervisory techniques and tools	• Improve the current compliance focused supervisory techniques to make them more risk-oriented, more formalized, and better adapted to the risk profile and systemic importance of each institution • Organize regular meetings and contacts with senior management of banks (particularly systemic ones) to discuss their strategies, activities, risks and any prudential concerns or issues. • Prepare regular offsite analytical notes on the situation of each bank and their risk profile and assessment and on recommended supervisory actions. • Prepare more regular and thorough analytical notes on banking sector risks and performance and any systemic concerns that require further actions. • Develop clear procedures and manuals for the offsite supervision and onsite inspection of MFI adapted to their activities, risk profile and systemic importance.
10. Supervisory reporting	• Develop the CI reporting system (E-CERBER) to enable comparison of banks with peer groups and banking sector. • Require consolidated prudential reports as part of the implementation of

	the new regulation on consolidated supervision. • Review the reports content and periodicity for MFI (SESAME) to be better adapted to their activities and risks and ensure a better validation and control over these reports.
11. Corrective and sanctioning powers of supervisors	• Proceed with full implementation of the new regulation on problem banks. • Adopt a more rigorous process for license withdrawals when the situation of a CI deteriorates significantly. • Enable the COBAC to proactively intervene in the case of institutions that are in violation of regulations and that have a weak situation by, for example, restricting dividend payments.
12. Consolidated supervision	• Fully adopt the recent regulation on consolidated supervision by issuing the applicable implementation guidance, requiring the compliance with prudential norms on consolidated basis, introducing consolidated supervisory reports, and revising the supervisory practices and approach to be applied on consolidated basis.
13. Home-host relationships	• Improve the oversight of cross-border banking groups incorporated in CEMAC by conducting more frequent joint inspections with host supervisors, and organizing supervisory colleges for systemic ones. • Sign the pending cooperation agreement with foreign supervisors and put them into practice
14. Corporate governance	• Better enforce the current corporate governance regulation through a higher coverage of related issues in the inspection process and reports and through the application of stricter corrective measures for non-complying banks. • Improve the current regulatory framework by requiring, among others, a sufficient number of independent board members, and additional specialized committees (depending on the systemic importance of CI)
15. Risk management process	• Revise the current internal control regulation (that also covers risk management) or develop a new one to provide more detailed guidance on risk management of banks and require more adequate disclosures on the risk management process in banks' published reports. • Develop prudential regulations for each type of significant risk in the CEMAC banking sector namely credit, liquidity, interest rate in the banking book, and operational risks. • Require banks to perform stress tests and provide related guidance.
16. Capital adequacy	• Revise the capital adequacy regulation to improve the quality of regulatory capital components and the sensitivity of risk weights applied to exposures
18. Problem assets, provisions, and reserves	• Fully implement the new regulation on asset classification and provisioning
19. Concentration risk and large exposure limits	• Revise the current large exposure limit to align them progressively with international standards.
20. Transactions with connected parties	• Revise the regulatory framework for connected party lending in order to: make the definition of connected parties more comprehensive and detailed, include all on and off-balance sheet exposures in the assessment of the compliance with the limits, require that connected party transactions be conducted on an arm's length basis, and set some conflict of interest rules in discussing and deciding on such transactions.
23. Interest rate risk in the banking book	• Develop a regulation on interest rate risk in the banking book to better report and monitor banks' risks in this respect and possibly introduce additional capital charges for banks excessively subjected to these risks.
24. Liquidity risk	• Develop a new regulation on liquidity risk management that fulfill the criteria of this principle and ensure a better coverage of liquidity risk management policies and procedures during the onsite inspection of banks. • Review the current liquidity prudential ratios for CI and MFI to make sure they truly reflect their liquidity positions and require a more frequent and adapted reporting for liquidity risk.
25. Operational risk	• Revise the current regulatory framework to provide more guidelines on operational risk definition, identification, monitoring, control and

	management.
27. Financial reporting and external audit	• Better frame the work of banks' external auditors by assessing their work and taking relevant corrective actions, and requiring their rotation on regular basis. • Align the accounting norms for banks more closely with international standards
28. Disclosure and transparency	• Set the templates for published financial statements as quickly as possible and require banks to publish annual reports that contain an adequate set of financial and qualitative information. • Publish the annual reports and semi-annual bulletins of COBAC on timely basis.
29. Abuse of financial services	• Better implement and enforce the existing AML/CFT regulations. • Reactivate the working groups with the national financial intelligence units (ANIF). • Periodically perform sectoral surveys, studies and analyses on the implementation of AML/CFT regulation in the CI and MFI sectors and take any needed actions to address identified deficiencies and weaknesses.

F. Authorities' Response

No response was provided by the authorities.