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Report No: PAD2558

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 17.3 MILLION

(US$25 MILLION EQUIVALENT)

AND A

PROPOSED GRANT

IN THE AMOUNT OF SDR 7 MILLION

(US$10 MILLION EQUIVALENT)

TO THE

BANQUE DES ETATS DE L'AFRIQUE CENTRALE (BEAC)

FOR

STRENGTHENING THE CAPACITY OF REGIONAL FINANCIAL INSTITUTIONS IN THE CEMAC REGION

April 5, 2018

Finance, Innovation, and Competitiveness Global Practice
Africa Region

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank's policy on Access to Information

CURRENCY EQUIVALENTS

Exchange Rate Effective (February 28, 2018)

Currency Unit =	CFA Francs (XAF)
XAF 526.56 =	US$1
US$1.44 =	SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFRITAC Central	Central Africa Regional Technical Assistance Center
AfDB	African Development Bank
AML	Anti-Money Laundering
ATM	Automated Teller Machine
BCP	Basel Core Principles
BDEAC	Development Bank of Central African States (*Banque de Développement des Etats de l'Afrique Centrale*)
BEAC	Bank of Central African States (*Banque des États de l'Afrique Centrale)*
CAA	Autonomous Sinking Fund (*Caisse Autonome d' Amortissement*)
CEMAC	Central African Economic and Monetary Community (*Communauté Economique et Monétaire des Etats de l'afrique Centrale*)
CFT	Combating the Financing of Terrorism
CIEA	Composite Index of Economic Activity
COBAC	Central African Banking Supervision Agency (*Commission Bancaire de l'Afrique Centrale*)
COSUMAF	Central African Securities Commission *(Commission de Surveillance du Marché Financier de l'Afrique Centrale)*
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CSD	Central Securities Depository
DA	Designated Account
DM	Department of Microfinance (*Département de la Microfinance*)
EMFD	Economic, Monetary, and Financial Database
EU	European Union
FATF	Financial Action Task Force
FIRST	Financial Sector Reform and Strengthening
FIU	Financial Intelligence Unit
FM	Financial Management
FOGADAC	Deposit Guarantee Fund *(Fond de Garantie des dépôts de l'Afrique Centrale)*
FSA	Financial Sector Assessment
FSAP	Financial Sector Assessment Program
FT	Financing of Terrorism
GABAC	Task Force Against Money Laundering in Central Africa (*Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale*)

GDP	Gross Domestic Product
GIABA	West Africa Inter-Governmental Action Group Against Money Laundering (*Groupement Intergouvernemental contre le Blanchiment d'Argent en Afrique de l'Ouest*)
ICBT	Informal Cross-border Trade
ICR	Implementation Completion and Results Report
IFC	International Finance Corporation
IFR	Interim Financial Report
IFRS	International Financing Reporting Standards
IMF	International Monetary Fund
IPI	Industrial Production Index
IPPI	Industrial Price Production Index
ISM	Implementation Support Mission
ISP	Implementation Support Plan
IT	Information Technology
M&E	Monitoring and Evaluation
ME	Mutual Evaluation
MFI	Microfinance Institution
ML	Money Laundering
NPF	New Procurement Framework
NPL	Nonperforming Loan
NRA	National Risk Assessment
NSI	National Statistical Institute
OECS	Organization of Eastern Caribbean States
OHADA	Organization for the Harmonization of Corporate Law in Africa (*L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires)*
PAFI	Payment Aspects of Financial Inclusion
PCR	Public Credit Registry
PCU	Project Coordination Unit
PDO	Project Development Objective
PIU	Project Implementation Unit
PPA	Project Preparation Advance
POS	Point of Service
PPSD	Project Procurement Strategy of Development
RIAS	Regional Integration Assistance Strategy
RTGS	Real-time Gross Settlement
TA	Technical Assistance
ToR	Terms of Reference
UGRIF	Financial Institutions Reform Management Unit (*Unité de Gestion des Reformes des Institutions Financières*)
UMAC	Central Africa Monetary Union (*Union Monétaire de l'Afrique Centrale*)
WAEMU	West African Economic and Monetary Union

Regional Vice President:	Makhtar Diop
Country Director:	Elisabeth Huybens
Senior Global Practice Director:	Ceyla Pazarbasioglu-Dutz
Practice Manager:	Rashmi Shankar
Task Team Leader(s):	Philippe Marie Aguera, Jean Michel Lobet

BASIC INFORMATION

Is this a regionally tagged project?	Country(ies)	Financing Instrument
Yes	Africa	Investment Project Financing

[ ] Situations of Urgent Need of Assistance or Capacity Constraints

[ ] Financial Intermediaries

[ ] Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
26-Apr-2018	04-Jul-2023	C - Not Required

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The Project Development Objective (PDO) is to strengthen the capacity of selected CEMAC regional financial institutions to implement their mandates in the areas of financial stability, inclusion and integrity.

Components

Component Name	Cost (US$, millions)
Component 1. Strengthening the Capacity of BEAC and COBAC to Implement their Financial Stability Mandate	12.00
Component 2: Strengthening the Capacity of BEAC and COBAC to implement their Financial Inclusion Mandate	14.00
Component 3: Strengthening Capacity of GABAC to Implement its Financial Integrity Mandate	4.00
Component 4: Supporting Selected Reforms through Results Based Financing	2.00
Component 5: Project Implementation	3.00

Organizations

Borrower :	Banque des Etats de l'Afrique Centrale (BEAC)
Implementing Agency :	Commission Bancaire de l'Afrique Centrale - COBAC Groupe d' Action contre le Blanchiment d' Argent en Afrique Centrale (GABAC)

PROJECT FINANCING DATA (US$, Millions)

[ ] Counterpart Funding	[ ] IBRD	[✓] IDA Credit	[✓] IDA Grant	[ ] Trust Funds	[ ] Parallel Financing

Total Project Cost: 35.00	Total Financing: 35.00 Of Which Bank Financing (IBRD/IDA): 35.00	Financing Gap: 0.00

Financing (in US$, millions)

Financing Source	Amount
IDA-62290	25.00
IDA-D3030	10.00
Total	**35.00**

Expected Disbursements (in US$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	0.60	2.53	3.94	7.35	11.39	9.18
Cumulative	0.60	3.14	7.08	14.43	25.82	35.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial

7. Environment and Social	● Low
8. Stakeholders	● Moderate
9. Other	
10. Overall	● Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✔] No

Does the project require any waivers of Bank policies?

[✔] Yes [ ] No

Have these been approved by Bank management?

[✔] Yes [ ] No

Is approval for any policy waiver sought from the Board?

[✔] Yes [ ] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✔
Natural Habitats OP/BP 4.04		✔
Forests OP/BP 4.36		✔
Pest Management OP 4.09		✔
Physical Cultural Resources OP/BP 4.11		✔
Indigenous Peoples OP/BP 4.10		✔
Involuntary Resettlement OP/BP 4.12		✔
Safety of Dams OP/BP 4.37		✔
Projects on International Waterways OP/BP 7.50		✔
Projects in Disputed Areas OP/BP 7.60		✔

Legal Covenants

Sections and Description
The Recipient shall not later than two months from the Effective Date, prepare and adopt a Project Operational Manual satisfactory to the Association and carry out the Project in accordance with the Project Operations Manual. Except as the Association shall otherwise agree in writing, the Recipient shall not assign, amend, abrogate the Project Operations Manual, or any provision thereof.

Sections and Description
In the event of any conflict between the provisions of the Project Operations Manual and those of the Financing Agreement, the provisions of the Financing Agreement shall prevail.

Sections and Description
BEAC shall within two months of Project effectiveness, through the PIU recruit and thereafter maintaining all throughout the implementation of the Project, a financial management specialist and a monitoring and evaluation expert. A decentralized project officer shall be recruited based on project needs.

Sections and Description
A mid-term review of the project will be carried out 24 months after credit effectiveness and annual reviews will be conducted in the first quarter of the year.

Sections and Description
BEAC will prepare and send to the WBG no later than November 30 of each year, the annual work plan, procurement plan, and budget of the project.

Sections and Description
BEAC shall no later than two months from the Effectiveness Deadline, prepare and submit an official correspondence explaining that the activities of the PIU will be subject to internal audit of BEAC every six months.

Conditions

Type	Description
Effectiveness	The Additional Conditions of Effectiveness consist of the following, namely, the Implementation Agreements have been executed and delivered on behalf of the Recipient and the Grant Beneficiary Entities in accordance with the provisions of Section I.B of Schedule 2 of the Financing Agreement.

Type	Description
Effectiveness	The Additional Legal Matters consist of the following, namely, that each Implementation Agreement has been duly authorized or ratified by the Recipient and each Grant Beneficiary Entity, and is legally binding upon the Recipient and each Grant Beneficiary Entity, in accordance with its terms.

Type	Description
Disbursement	Notwithstanding the provisions of Part A of Schedule 2, Section III, no withdrawal or payments may be made: (a) prior to the date of the Financing Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 200,000 may be made for payments made prior to this date but on or after twelve (12) months for EEPs under Category (3). (b) under Category 2 unless and until the Recipient has prepared a Matching Grants Manual and the Financial Inclusion Regional Strategy satisfactory to the Association. (c) for payments under Category (3), unless any applicable DLR set out in Schedule 2 to the Financing Agreement has been met by the Recipient in a manner satisfactory to the Association as reported in accordance with the terms of the Verification Protocol, establishing that the Recipient has spent under the EEPs an amount at least equal to the amount associated with the relevant DLR set out in Annex 2 to the Financing Agreement.

Type	Description
Disbursement	If, at any time, the Association determines that: (i) any portion of the Credit or Grant was used to finance items improperly procured in violation of Section III of Schedule 2 of the Financing Agreement; or (ii) any portion of the amounts disbursed by the Association to the Recipient under Category (3) was: (a) made for reimbursement of expenditures which are not eligible under the Eligible Expenditure Programs under Part D of the Project; or (b) not supported by evidence of actual spending by the Recipient under said EEP and/or by evidence of satisfaction of other criteria set forth in the Financing Agreement or in the POM, the Recipient shall promptly refund any such portion to the Association as the Association shall specify by notice to the Recipient. The Association may, at its own discretion, cancel such refunded amount.

Type	Description
Disbursement	Without limitation to Disbursement condition (2) above, if the Association has received only partial evidence of compliance under the DLIs, and/or the Recipient has not presented enough Eligible Expenditures under the aggregate EEPs under

	category (3) to disburse the full planned disbursement amounts, the Association may, at its discretion, authorize that the unwithdrawn portion be carried forward to the subsequent withdrawals, provided that: (a) the applicable DLIs have subsequently been achieved; (b) the Recipient has submitted documentation of Eligible Expenditures in the amount at least equal to the withdrawal amount requested; and (c) the amounts carried forward is at least equal to the amount requested for withdrawal and may be disbursed at the time of the subsequent withdrawal; (d) and all such withdrawals shall be carried out in accordance with the provisions set forth or referred to in the Project Operations Manual.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Philippe Marie Aguera	Team Leader(ADM Responsible)		GFCAC
Jean Michel Lobet	Team Leader	Co-TTL	GFCMW
Ibrah Rahamane Sanoussi	Procurement Specialist(ADM Responsible)	Procurement	GGOPF
Celestin Adjalou Niamien	Financial Management Specialist		GGOAC
Ahmed Abdelaziz Faragallah Abdelnaby	Team Member	Payment systems	GFCFI
Alphonsus Nji T Achomuma	Team Member	Credit bureau/registry	GFCAC
Andrea Vasquez-Sanchez	Team Member		GFCAS
Cyrille Valence Ngouana Kengne	Environmental Safeguards Specialist		GEN07
Eric Roland Metreau	Team Member	Statistics	DECAE
FNU Owono Owono	Social Safeguards Specialist		GSU01
Juan Buchenau Hoth	Team Member	Microfinance	GFCLT
Khrystyna L. Kushnir	Team Member	Ecofin Analyst	DECDB
Kristyna Bishop	Environmental Safeguards Specialist		GSU01
Laurence Hougue Bouguen	Team Member		AFCC1

Magalie Pradel	Team Member		GFCAC
Marco Traversa	Team Member	Financial Inclusion	GFCFI
Marilyne Pereira Goncalves	Team Member	AML/FT	GFCAW
Milaine Rossanaly	Team Member	PSD Specialist	GFCAC
Monique Ndome Didiba Epse Azonfack	Team Member	Procurement	GGOPF
Nightingale Rukuba-Ngaiza	Counsel		LEGAM
Sheirin Iravantchi	Team Member	Financial Inclusion	GFCFI

Extended Team

Name	Title	Organization	Location

BANQUE DES ETATS DE L'AFRIQUE CENTRALE
STRENGTHENING FINANCIAL REGIONAL INSTITUTIONS AND INTERMEDIATION IN THE CEMAC REGION

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I. STRATEGIC CONTEXT

A. Regional Context

1. **The Central African Economic and Monetary Community (*Communauté Economique et Monétaire des Etats de l'Afrique Centrale*, CEMAC) has the objective of promoting the sustainable development of its member countries in the context of establishing a common market.** The CEMAC is one of the oldest existing monetary unions in the world and is composed of six member states, including Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon. In 2016, the CEMAC had a population of almost 51 million people and a gross domestic product (GDP) of approximately US$68 billion. All the CEMAC member countries, except for the Central African Republic, are oil exporters and the oil sector represents 54 percent of regional government revenue. In addition, 29 percent of regional GDP and 79 percent of regional exports come from the oil sector. The CEMAC region has a common currency, the CFA franc (XAF), which is pegged to the euro and guaranteed by the French Treasury.[1] The region is very diverse in income per capita (for example, in 2016 gross national income per capita ranged from US$370 in the Central African Republic to US$6,550 in Equatorial Guinea). The member countries perform poorly with respect to global indicators such as Global Competitiveness Index (World Economic Forum), Ease of Doing Business, and Transparency International.

2. **The CEMAC's governing structure includes the Council of Ministers and the Conference of Heads of State, which define regional policy guidelines and nominate the heads of all CEMAC regional institutions.** The CEMAC is composed of six regional institutions, including a central bank (*Banque des États de l'Afrique Central,* BEAC), a banking sector regulator (*Commission Bancaire de l'Afrique Centrale,* [COBAC]), a securities regulator (*Commission de Surveillance du Marché Financier de l'Afrique Centrale,* [COSUMAF]), a task force against money laundering (*Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale,* [GABAC]), and a regional development bank (*Banque de Développement des Etats de l'Afrique Centrale*, [BDEAC]).

3. **The collapse of oil prices in 2014 and an unstable security environment deteriorated the economic situation and increased the risk of a foreign exchange crisis.** The region was hit by the decline in oil prices, security pressures posed by Boko Haram and civil unrest in the Central African Republic, flow of refugees, money laundering (ML), and droughts. These shocks brought real GDP growth in 2016 to its lowest level in the last two decades, i.e., minus 0.9 percent. To address the dire economic situation, countries reduced their non-oil budget deficit from 22 percent to 13 percent in 2016. However, these adjustment measures did not compensate for the loss in oil revenues. In 2016, the regional primary deficit increased to 5.7 percent of GDP and public debt to 47 percent of GDP. Instead of tightening monetary policy, the BEAC adopted an accommodative approach with large statutory advances to member states, a decrease in reserve requirements of 50 percent, and an increase in the ceilings on bank refinancing from 10 to 20 percent of previous year's fiscal revenues.[2] Financing provided by the BEAC helped accommodate public and private imbalances in the short term, but it depleted international reserves by 68 percent since

[1] As a result, 50 percent of the foreign exchange reserves of the CEMAC member countries are deposited in an account at the French Treasury.

2014 to a critical point of 2.3 months of imports or US$4.9 billion in December 2016, threatening the current exchange rate peg.

4. **To spur economic growth, avert a financial crisis, and preserve the current exchange rate peg, the CEMAC heads of state met at a summit in Yaoundé in December 2016 and adopted a regional strategy.** They identified the following areas of reform: (a) increase non-oil revenues, lower public debt,[3] and make public spending more transparent; (b) protect the poor from the dire impact of the economic crisis by means of social protection programs; (c) increase stability and inclusion in the financial sector; and (d) improve the business environment. The implementation of the strategy involves two streams of actions: (a) in the short term, tighter monetary policy at the regional level, adjustments to fiscal policy at the national level, along with International Monetary Fund (IMF) financing to grow reserve assets and (b) in the long term, structural reforms to strengthen CEMAC regional and national institutions' capacity to manage public finance and to create a business-friendly environment in support of economic growth.

B. Sectoral and Institutional Context

5. **According to the 2016 CEMAC Financial Sector Assessment (FSA), the financial sector remains shallow and mostly bank based.** The depth of the banking sector is limited and accounts for only 26.3% of CEMAC's GDP. Domestic credit to private sector in the region is low and represents 10 percent of the GDP. The CEMAC banking sector is composed of 52 banks. On average, close to 50% of banking sector assets are controlled by three banks per country and close to 50% of banking sector assets are controlled by foreign banks (mostly European banks). The microfinance sector plays an important role in the region. The sector is composed of 825 microfinance institutions (MFI), serving almost 1.8 million members/clients (equivalent to about 7 percent of the adult population). Capital markets are almost nonexistent due to the coexistence of two competing markets (one domestic in Douala and one regional in Libreville).[4] The regional authorities decided in November 2017 to merge the two exchanges.[5] Insurance and pension sectors remain underdeveloped.

6. **Access to finance is hampered by weak credit infrastructure which, in turn, stifles private sector development.** Domestic credit to the private sector is low at 15 percent of GDP in Central African Republic and Cameroon, 14 percent in Gabon, 11 percent in the Republic of Congo, and 6 percent in Chad. According to Enterprise Surveys, access to finance is identified as a major constraint by firms operating in the region (table 2).[6] The value of collateral needed for a loan is very high. For example, it is 260 percent of the loan amount in Cameroon and 233 percent in the Central African Republic. This is the result of multiple factors including asymmetry of information and weak collateral and insolvency frameworks. The overall majority of people and firms in the region do not have credit history records which would allow them to apply for loans at competitive interest rates. According to the Doing Business data, none of the countries in the region have an operating private credit bureau. The coverage of the regional public credit registry (PCR) remains limited.[7] Furthermore, collateral frameworks are underdeveloped and not a single

[3] Accordingly, country programs aim at different adjustment efforts (both in stock and flow) tailored to restore domestic and external sustainability for each country.
[4] In November 2017, the CEMAC authorities decided to merge the two stock exchanges.
[5] The regional regulator, the COSUMAF, will remain in Libreville (Gabon) and the regional stock exchange will be located in Douala (Cameroon).
[6] Enterprise Surveys do not cover Equatorial Guinea.
[7] Specifically, in Chad, where only 2.3 percent of the adult population is covered, in Central African Republic 3.1 percent, in

CEMAC member country has a movable collateral registry. Insolvency frameworks are ineffective due to limited capacity of the judicial system. According to the Doing Business report, it takes on average 4 years to a firm to go through insolvency proceedings.

Table 1.Selected Indicators on Access to Finance

	Cameroon (2016)	Central African Republic (2011)	Chad (2009)	Congo, Rep. (2009)	Gabon (2009)
Percentage of firms with a checking or savings account	79	99	96	87	84
Percentage of firms with a bank loan/line of credit	14	26	21	13	9
Proportion of loans requiring collateral (%)	88	84	75	68	53
Value of collateral needed for a loan (% of the loan amount)	260	233	136	47	n.a.
Percentage of firms not needing a loan	41	25	43	32	49
Percentage of firms whose recent loan application was rejected	36	24	n.a.	n.a.	n.a.
Percentage of firms using banks to finance investments	16	25	4	8	6
Proportion of investments financed internally (%)	62	74	84	85	93
Proportion of investments financed by banks (%)	4	5	2	4	3
Percentage of firms using banks to finance working capital	20	25	16	10	9
Percentage of firms using supplier/customer credit to finance working capital	19	46	17	18	7
Proportion of working capital financed by banks (%)	7	6	5	3	3
Percentage of firms identifying access to finance as a major constraint	41	46	47	45	30

Source: Enterprise Surveys.

7. **Financial inclusion is low, both for individuals and firms.** According to the Global Findex database (Table 2), access to financial services is very low. Less than 15 percent of the adult population has access to a bank account. Borrowing from family or friends is the most common source of credit. For example, 28 percent of loans are from family and friends in Gabon, 42 percent in Cameroon, and 20 percent in Central African Republic. In all countries but Cameroon, borrowing from an informal lender is more frequent than borrowing from a financial institution. Less than 10 percent of the population in the CEMAC countries has a credit card, uses mobile accounts, or uses electronic means to make payments.

Table 2. Selected Indicators on Financial Inclusion of Individuals (as percentage of population who are over 15 years)

	Cameroon	Central African Republic	Chad	Congo, Rep.	Gabon
Account (2015)	12	3	12	17	33
Account at a financial institution	11	3	8	17	30

Cameroon 8 percent, in Equatorial Guinea 9 percent, in the Republic of Congo 12.2 percent, and in Gabon 50.8 percent.

	Cameroon	Central African Republic	Chad	Congo, Rep.	Gabon
(2015)					
Borrowed any money in the past year (2015)	57	..	41	42	38
Borrowed from a financial institution (2015)	2	1	2	4	4
Borrowed from a private informal lender (2015)	2	5	3	6	9
Borrowed from a store by buying on credit (2012)	2	2	5	0	1
Borrowed from an employer (2012)	1	2	9	3	2
Borrowed from family or friends (2015)	42	20	25	24	28
Credit card (2015)	1	1	1	2	6
Loan in the past year (2012)	50	25	41	35	32
Mobile account (2015)	2	..	6	2	7
Received domestic remittances in the past year (2015)	39	..	31	27	37
Used electronic payments to make payments (2012)	0	0	2	2	3

Source: Global Findex database. Last updated on April 4, 2015.

8. **Payment systems in the CEMAC region are underdeveloped.** The payment systems infrastructure[8] is aging and needs to be upgraded. Furthermore, the legal and regulatory framework is not in line with international good practices. A regional payment system approach has not been developed by the COBAC and BEAC. The existing structure remains complex due to the cohabitation of multiple regional regulatory frameworks (BEAC, COBAC, and country-specific regulations). This has resulted in increased uncertainty about applicability of regional and domestic laws particularly in the area of e-money. The oversight framework of payment systems of the BEAC has not been developed yet. The assessment of systemically important payment systems is still performed based on the 10 core principles of Systemically Important Payment Systems (SIPS) and not under the Principles of Financial Market Infrastructure.[9] BEAC has started to develop a centralized security depository to manage CEMAC countries government debt. However, without a government debt market strategy, the primary and secondary markets structures will not develop effectively.

9. **The banking sector remains vulnerable and has been hit hard by the fall in oil prices.** The level of nonperforming loans (NPLs) increased from around 10 percent in 2014 to 17 percent at end August 2017. However, the increase is uneven, with, for example, a smaller increase in Cameroon, which has a more diversified economy, than in oil-dependent economies such as Chad, the Republic of Congo, and Equatorial Guinea. This increase is mainly due to the preponderant role of states in financing the economy in the region. As a result, governments' arrears to the banking system and to the private sector have

[8] Payment infrastructure includes: Real-time gross settlement systems, central securities depositories, securities settlement systems, central counterparties and trade repositories

[9] The SIPS were the first set of principles regulating payment systems infrastructures issued by BASEL Committee in 2001. These principles were later replaced by the Principles of Financial Market Infrastructure which were issed jointly by BASEL and International Organization of Securities Commissions.

increased dramatically. The banks' liquidity has declined since the end of 2014, which resulted in slower growth of credit to the economy. The banks' liquidity levels[10] at the end of December 2016 averaged 110 percent compared to 138 percent in 2014. Deposits fell by 8 percent over the last two years, with an acceleration of this decline since mid-2016. Lower liquidity, coupled with credit growth and the absence of an interbank market, forced some banks to have increased recourse to the refinancing facility of the BEAC. In December 2016, BEAC refinancing accounted for about 6 percent of the balance sheet of the CEMAC banks, whereas it was only 0.07 percent two years earlier. According to the COBAC's bank rating only 1 bank out of 52 was in a solid financial situation as of August 31, 2017 (see Table 3). Between December 31, 2016, and August 31, 2017, the number of banks in fragile financial situation increased from 11 to 16 (see table 3).

Table 3. CEMAC - Banking Sector Situation

Evaluation	08/31/2016	12/31/2016	08/31/2017
1. Solid financial position	1	1	1
2. Good financial situation	12	12	11
3. Unsatisfactory financial situation	23	25	21
4. Fragile financial situation	11	11	16
5. Critical financial situation	5	3	3
Total number of banks	**52**	**52**	**52**

Source: Banks' rating by the COBAC as of August 31, 2017.

10. **The microfinance sector is also under pressure.** The MFIs' financial situation remains a concern. A significant part of the sector does not comply with prudential norms and is currently facing liquidity constraints. As of June 2016, the MFI gross loan portfolio was XAF 514 billion (approximately US$920.5 million) and the total volume of loans in default was at least XAF 66 billion (approximately US$120 million), which amounts to 13 percent of the gross loan portfolio. As of December 2017, four MFIs, representing XAF 32 billion (or 6 percent of the total), were in the process of being liquidated and an additional four MFIs, representing XAF 9 billion (or 2 percent of the total), were under a special administration regime. The COBAC, which oversees the supervision of the MFIs, is understaffed, and currently has 10 staff dedicated to the supervision of the 825 MFIs.

11. **The COBAC has reviewed its banking resolution framework (CEMAC Regulation 02/14) but this framework has not been tested yet.** The legal framework for the treatment of banks in distress should be complemented by mechanisms for consultation and coordination among all the authorities potentially concerned by the failure of complex financial groups with cross-border activities. The 2015 Financial Sector Assessment (FSA) recommends that COBAC ensures (a) a speedy decision-making process and (b) consistency of the options implemented by the relevant monetary authorities in the case of failure of a group operating in several CEMAC countries. Improvement of the existing laws and regulations should be accompanied by the formulation of clear procedures assigned to each pertinent authority, including the Deposit Guarantee Fund *(Fond de Garantie des dépôts de l'Afrique Centrale,* FOGADAC), a clear role

[10] Liquidity is a measure of the ability and ease with which assets can be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations; examples of liquid assets generally include cash, central bank reserves, and government debt. To remain viable, a financial institution must have enough liquid assets to meet its near-term obligations, such as withdrawals by depositors..

in the design and selection of available options, in the decision-making process, and in the implementation of actions towards bank resolution.

12. **The financial sector is also exposed to security risks including money laundering and terrorism financing.** According to the 2016 CEMAC FSA, important financial flows are generated from corruption; embezzlement of public funds; trafficking of arms and natural resources (diamonds, oil, other mining, fishing, and wildlife); illegal logging; and piracy in the Gulf of Guinea. The security conditions are also deteriorating rapidly in the region. As a result of the Government of Nigeria's efforts to combat Boko Haram in its territory, the terrorist organization spread into the north of Cameroon and the Lake Chad region. The financial sector (banks, money transfer providers, exchange bureaus, and MFIs) is particularly exposed to money laundering and financing of terrorism risks due to lack of capacity and inadequate supervision by the relevant regional institutions (BEAC, COBAC, and domestic authorities). According to the joint report in October 2016 by the Financial Action Task Force (FATF),[11] West Africa Inter-Governmental Action Group Against Money Laundering (GIABA), and GABAC, Boko Haram uses cash, money or value transfer services, mobile money, and bank transfers to transfer funds.

13. **The oil price shock compounded by the security crisis exposed systemic deficiencies in the financial system and institutional inadequacies of the CEMAC regional bodies.** These gaps must be addressed at the level of the CEMAC regional institutions to prevent the repetition of the current precarious situation in the future. However, the regional institutions lack the capacity to respond effectively to the ongoing crisis and to promote effective and sustainable growth. BEAC lacks timely and accurate statistics that comply with internationally agreed standards to be able to conduct effective monetary policy. Macroprudential oversight is hindered by a lack of systems and methodologies to conduct stress tests. Foreign reserves management remains problematic and is hampered by the lack of tools to track and monitor foreign transactions movement by the different countries. COBAC is severely understaffed (that is, there are only 10 staff assigned to the oversight of more than 800 MFIs). The report on the assessment of compliance with the Basel Core Principles (BCP) on effective banking supervision in the CEMAC revealed a poor level of compliance with respect to the powers and responsibilities of the COBAC and the existing prudential framework. The GABAC has made important efforts to comply with international standards. As a result, it became a full-time member of the FATF. However, that membership is at risk due to limited financial resources to conduct mutual evaluations (MEs) and national risk assessments.

14. **The current economic environment requires effective policy actions by the CEMAC regional institutions, particularly BEAC, COBAC, and GABAC, to mitigate the impact of the crisis and develop a more resilient and inclusive financial sector.** The recently appointed BEAC Governor prepared, and the BEAC Board adopted in December 2017, a new Strategic Plan for 2017–2020 (Box 1). BEAC also implemented governance reforms in the context of the IMF's safeguards missions (Box 2). Furthermore, COBAC is actively working on multiple fronts to address key banking sector shortcomings, including related lending, risk concentration, increasing credit in arrears, corporate governance, and AML/CFT. COBAC is also working to strengthen its prudential supervision framework for banks and the MFIs. A risk-based supervision approach and consolidated supervision regulations are in the process of being

[11] The AML/CFT global standard setter.

implemented under the COBAC Action Plan 2016-2019. GABAC has also developed a Strategic Action Plan, in 2016, to support member states with the implementation of sound and efficient AML/CFT regimes.

Box 1: BEAC's Strategic Plan 2017-2020

The preparation of BEAC's Strategic Plan (aka. PSB), adopted by the BEAC's Board of Directors on December 21, 2017, was based on the 2009-2016 operational audit of the institution. This audit identified a large number of shortcomings that tainted the effectiveness of the Institution. The main identified shortcomings are as follows:

1- Inadequate monetary policy, in particular because of the lack of a monitoring mechanism with adequate indicators and methodologies.
2- Ineffective research function that lacks structured and reliable statistics.
3- Inadequate foreign exchange regulation that is not in line with global good practices and with the current practices of the CEMAC member states.
4- Challenging foreign reserves management due to the decline in net foreign currency inflows.
5- Weak financial stability monitoring framework due to lack of reliable indicators and tools to assess the impact of macroeconomic shocks on the financial system.
6- Inadequate payment systems infrastructure.
7- Ineffective human resources management processes.
8- Inadequate accounting and auditing systems and standards.
9- Dilapidated IT and telecom infrastructures.

In response to these shortcomings the BEAC adopted in December 2017 a strategic plan identifying key reforms to improve the effectiveness of the BEAC. Key reforms include:

1- Pursuing the implementation of the monetary policy operational framework adopted in 2015 by the Monetary Policy Committee.
2- Strengthening of the research function by supporting the acquisition of information systems and developing reliable and timely statistics.
3- Strengthening of payment systems legal and oversight frameworks and infrastructures with special emphasis on electronic payments and emoney.
4- Strengthening of the capacity of the financial stability analysis function.
6- Stabilizing and increasing foreign reserve levels through rigorous control of outgoing transfers and the launch of a gold monetization program.
7- Updating the foreign exchange regulations and implementation of IT systems to better track foreign exchange transactions.
8- In the other areas, it is planned to: (i) complete the reform of human resources management, (ii) set up a new accounting framework based on IFRS and optimize the accounting information system, (iii) strengthen the internal control and audit functions by deploying risk-based management approaches; (iv) optimize the management of real estate assets, (v) modernize the IT and telecom infrastructure, and (vi) complete the budget reform.

Source: Plan Strategique BEAC 2017-2020

Box 2: BEAC's Governance Reform

The BEAC has recently completed a comprehensive governance reform with the support of the IMF. As many regional central banks, the BEAC is subject to a safeguards assessment by the IMF every four years. The 2013 assessment spanned a period of change at the BEAC and occurred against the backdrop of reforms initiated to address governance shortcomings and control failures that emerged in 2009. The governance of the BEAC was undermined by a legal framework that did not adequately protect institutional autonomy, and problematic partial adherence of several member states to the reserves pooling obligation that is fundamental for the effectiveness of the monetary union.

Consequently, annual IMF staff visits since 2013 monitored the implementation of priority recommendations and progress on the BEAC's reform plan as part of the safeguards "rolling measures" approach. IMF Staff report (2017) welcomed significant progress achieved in BEAC safeguards reform and in the implementation of two safeguards priority recommendations.

- *BEAC's Charter reform was completed in 2017*. This reform will strengthen decision making, enhance checks and balances structures, and enhance internal controls. Progress include enhancing the role of the Board of Directors particularly in the areas of financial stability (i.e. articulation of the duties of the Board and of the Financial Stability Committee), and internal decision making (i.e. review of the collegiality principle).
- *Migration to internationally recognized accounting standards (IFRS).* The BEAC has decided to migrate to IFRS as recommended by the safeguards mission. The BEAC agreed to publish its financial statements under IFRS methodology by 2019. The World Bank will support the BEAC with the migration process to IFRS.

The IMF considers that further significant technical assistance is required to support the implementation of additional governance reforms including: improve the capacity of the BEAC's board and internal control functions (audit, risk and compliance).

Source: IMF staff report 2017

15. **The CEMAC regional institutions requested support to finance technical assistance and upgrade key financial sector infrastructure.** The newly appointed BEAC Governor has requested TA from the World Bank Group to work jointly with BEAC, COBAC, and GABAC on the implementation of their strategic action plans. The World Bank would support the implementation of reforms in key priority areas to support the regional institutions to effectively fulfill their mandates of financial stability, inclusion and integrity.

C. Higher Level Objectives to which the Project Contributes

16. **The project is aligned with the objectives of the Country Partnership Frameworks (CPFs) and Country Partnership Strategies (CPSs) of the CEMAC member countries.** Private sector development is at the center of the CPFs and CPSs in the CEMAC region. For the private sector to grow, it requires a stable and inclusive financial sector to effectively finance the economy. One of the three pillars of the Cameroon CPF is to foster infrastructure and private sector development. One of the key constraints of the Cameroonian private sector is access to effective financial services (CPF FY17-FY21 paragraph 48). The CPF also mentions the risks for Cameroon due to weak regional institutions. For Chad, one of the main objectives of the CPF is to improve the environment for private sector development (CPF FY16-FY20

paragraph 87). For the Republic of Congo, Pillar 1 of the FY13–16 CPS (competitiveness and employment) had the objective to support private sector-led growth with an efficient financial sector to finance the economy and also promote regional integration (paragraphs 57 and 58). The Gabon FY12-FY16 CPS states that regional integration remains a key priority that supports economic growth. The financial sector agenda, including ML, remained a key priority for the World Bank Group in Gabon.

17. **Regional integration through the financial sector has remained an important priority for the World Bank Group over the last 15 years.** The 2003 Central Africa Regional Integration Assistance Strategy (RIAS) of 2003 (Report No. 25328) identified regional financial integration as one of the key priorities for the CEMAC. Furthermore, the second pillar of the Sub-Saharan RIAS of 2008[12] identified regional financial sector integration as a key area for assistance. The RIAS also highlighted the high dependence on oil of the region and the importance of managing these resources effectively to generate economic growth (RIAS paragraph 28). Furthermore, the 2011 progress report[13] of the 2008 RIAS confirmed that regional business and financial sector reforms can facilitate the development of competitive value chains to reach optimal economic scale and spatial distribution across borders (RIAS paragraph 58).[14]

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

18. The Project Development Objective (PDO) is to strengthen the capacity of selected CEMAC regional financial institutions to implement their mandates in the areas of financial stability, inclusion, and integrity.

B. Project Beneficiaries

19. **The main beneficiaries of the project are the following three CEMAC institutions: BEAC, COBAC, and GABAC.** The assistance that will be provided under the project is of the nature of a public good, benefiting the member economies and their populations at large. The reforms envisaged are supposed to facilitate economic and trade relations in the sub region and strengthen regional integration, particularly benefiting the population in the poorer, landlocked countries. Furthermore, the work envisaged under the project on microfinance is particularly important in protecting the savings of the most vulnerable populations and promoting financial inclusion.

C. PDO-Level Results Indicators

20. **The contribution of the project to strengthen the capacity of the CEMAC regional financial institutions in the areas of financial stability, inclusion and integrity will be measured by**:

[12] http://siteresources.worldbank.org/INTAFRREGINICOO/Resources/1587517-1271810608103/RIAS-Paper-Final-Approved-Oct2010.pdf.
[13] http://documents.worldbank.org/curated/en/440771468744287585/pdf/multi0page.pdf
[14] A new RIAS is in the process of being drafted. Subsequent reports (Project Appraisal Document [PAD] and so on) will be updated to reflect the new strategy.

- Increased capacity of BEAC to produce reliable financial, monetary and economic statistics on a monthly basis (measured by the periodic availability of financial, economic and monetary information in the BEAC's website).

- Increased capacity of COBAC to supervise banks under new risk based supervision framework (measured by the percentage of banks supervised under the new framework developed under the project between year 1 and 3).

- Increased capacity of BEAC to expand the population coverage of the regional credit registry (measured by the percentage of the population covered by the regional public credit registry). This indicator includes a gender subcomponent to track the credit registry's coverage of the female population (measured by the percentage of the female population within the adult population covered by the regional public credit registry)

- Increased capacity of GABAC to comply with the FATF membership requirements (measured by GABAC maintaining its membership status at the FATF (which includes compliance by GABAC with the 2012 FATF standards).

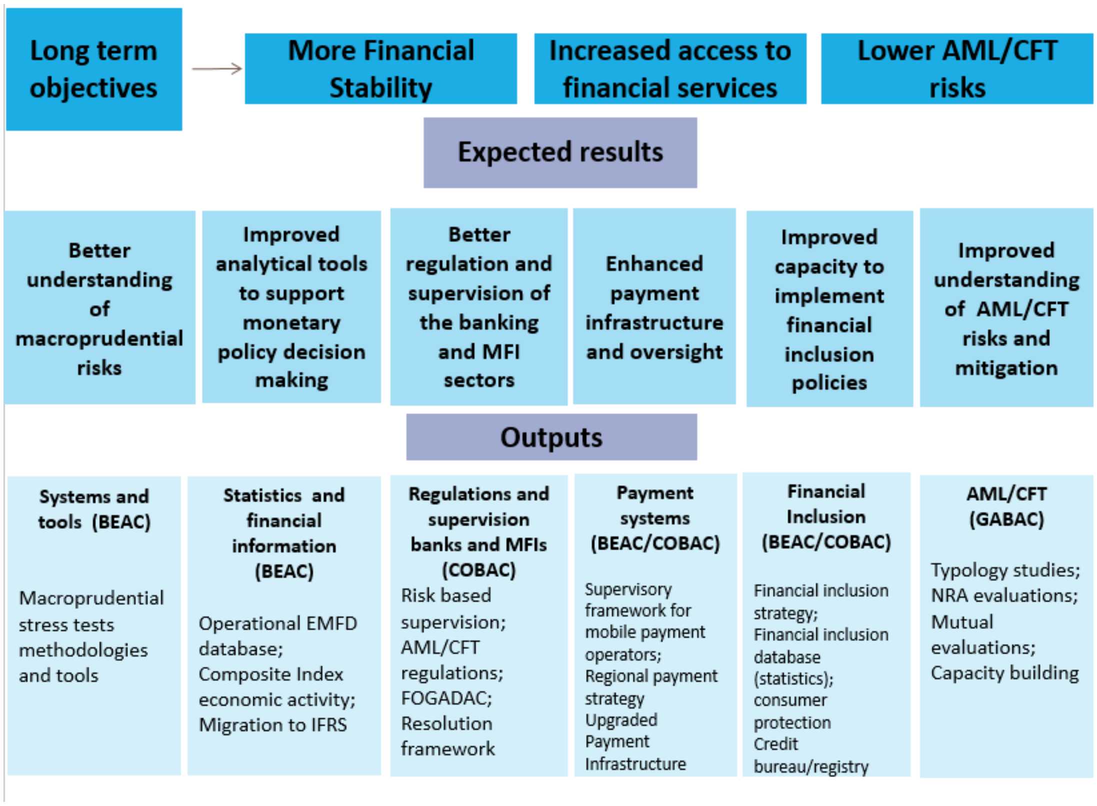
21. **The project will also track a set of additional intermediate monitoring and evaluation (M&E) indicators as part of its M&E framework outlined in Section VII.** Among others, these include various indicators to track progress on the implementation of different technical assistances including development of financial inclusion indicators, implementation of risk based supervision for the MFI sector, and adoption of key legislation. Gender desegregated indicators have also been included to track by gender the beneficiary populations of innovative pilots in the area of financial inclusion

III. PROJECT DESCRIPTION

A. Project Components

22. **The main objective of the project is to strengthen the capacity of BEAC, COBAC, and GABAC to allow them to implement their mandates in the areas of financial stability, inclusion, and integrity.** The project has the long-term objectives to enhance financial stability, increase access to financial services, and lower the AML/CFT risks in the CEMAC region. To support these long-term objectives, at the end of the project, the regional institutions are expected to have improved: (a) their understanding of macroprudential risks; (b) the analytical tools to support monetary policy decision making, (c) the regulation and supervision of the banking and microfinance sectors, (d) the payment infrastructure and oversight, (e) the capacity to implement financial inclusion policies, and (f) the understanding of AML/CFT risks and mitigation measures. To achieve these outcomes, the project will provide TA to improve key financial sector regulations and supervision processes (bank supervision, MFI prudential regulations and supervision, and AML/CFT); to procure relevant infrastructures (payment systems, credit registries, and statistical databases); and to deliver capacity building. The Results Framework and results indicators (section VII - Results Framework and Monitoring) are built around the assumption that the project will achieve its overall objectives if the activities and outputs are carried out successfully (figure 1).

Figure 1. Theory of Change - Strengthening the Capacity of Regional Financial Institutions in the CEMAC Region



Note: EMFD = Economic, Financial, and Monetary Database

23. **Due to the regional nature of the project, the operation will focus on delivering TA to three regional institutions, BEAC, COBAC, and GABAC, across key thematic areas.** Building on the lessons learned from the previous CEMAC operation (P099833), the number of beneficiary institutions will be reduced from six to three and the activities will be more focused. Furthermore, rather than working at the individual institution level in an uncoordinated matter, the project has identified key cross-cutting themes, including stability, integrity, and inclusion, to deliver TA across the beneficiary institutions. This approach should encourage better cooperation between regional institutions and more effective implementation of the relevant reforms. Support to regional institutions was identified based on the priorities included in the strategic plans developed by these three institutions. Analysis conducted during the project preparation confirmed that the BEAC, COBAC, and GABAC have the technical capabilities to effectively implement this project.

Component 1. Strengthening the Capacity of BEAC and COBAC to Implement their Financial Stability Mandate (SDR 8.4 million, US$12 million equivalent)

Subcomponent 1.1. Strengthening BEAC Capacity to Identify and Mitigate Macro-Financial Risks and Improving the Analytical Tools to Support Better Monetary Policy Decision-Making Process (IDA financing US$ 6 million credit)

Responsible agency: BEAC

24. **The project will help BEAC strengthen its capacity to conduct risk analysis by developing a tool that will help simulate and assess the impacts of different types of macroeconomic shocks on the financial stability of the region and its member states.** Currently, the macroprudential analysis conducted by BEAC is based mainly on experts' judgement**.** The project will fund (a) TA to allow the team in charge of macroprudential stress tests to develop the relevant methodology and (b) the purchase and development of the related information technology (IT) software.

25. **The project will support the operationalization of BEAC Economic, Monetary, and Financial Database (EMFD) to improve the institution's monetary policy and macroprudential decision-making process.** The previous CEMAC operation successfully funded the purchase and initial development of an EMFD. This database will very soon be operational. However, the EMFD lacks a significant amount of historical data series to provide reliable statistical information and trends. To fulfill this objective, the BEAC will work jointly with National Statistical Institutes (NSIs), which are the main data providers for the EMFD across the CEMAC region. This activity will require significant commitment from BEAC to build capacity among the different NSIs to ensure that normalized data are produced across countries, according to specific methodologies and standards to effectively feed the EMFD. Assistance to NSIs by the BEAC will be provided through regular regional meetings of focal points and TA missions to countries. The project will thus support the following activities: (a) funding the collection of historical statistical data not yet collected; (b) supporting the renewal of licenses necessary for the functioning of the EMFD and development of the tools necessary for the proper functioning of the database; and (c) including a training component for the BEAC IT staff working on the EMFD so that, by the end of the project, the IT staff can develop such tools without external assistance.

26. **The project will also support the development of short-term indicators that will be used to calculate the composite index of economic activity (CIEA) to improve the institution's monetary policy and macroprudential decision-making process.** The CIEA is a key component of the evaluation of the business climate, in a context where basic indicators often provide mixed messages. A working group has designed the methodology to be used for the calculation of the CIEA but there is a lack of resources in member countries to produce the basic data needed for the development of the index. The NSIs have been contacted by BEAC to provide information on existing indicators. In addition, the two NSIs that were visited (Cameroon and Gabon) during the preparation of the project expressed strong interest in these activities, which are in line with their own development programs. TA in the field and funding for data collection will be provided to the NSIs where needed. The project will thus support the following activities: (a) development of methodologies and procedures for the computation of the CIEA, (b) purchase of hardware and software (as needed), and (c) capacity building.

27. **Effective implementation of this component will allow BEAC to better fulfill its mandate in the area of monetary policy thus improving financial stability.** With reliable statistical information and databases, BEAC's authorities will have additional tools to better substantiate their monetary policy decisions. Stress test tools will allow the BEAC to respond in a more informed manner to macroeconomic events, which in turn will help preserve the financial stability of the region. It must be noted that many initiatives led by various partners (including World Bank country-specific projects, IMF, African Development Bank (AfDB), and the European Union [EU]) are already assisting the CEMAC countries to improve their national statistics system. The proposed project will complement the ongoing efforts. The World Bank Group is in close contact with all stakeholders to ensure good collaboration and complementarity of actions in the field. A description of the current initiatives, which are possibly related to the proposed project, is provided in annex 6.

Subcomponent 1.2. Strengthening the Capacity of COBAC to Improve Banking and Microfinance Regulation and Supervision (IDA financing US$ 4.5 million grant)

Responsible agency: COBAC

Subcomponent 1.2.1. Banking Sector Regulation and Supervision

28. **The objective of this subcomponent is to improve the capacity of the COBAC in the areas of regulation and supervision, thus strengthening the resilience of the banking sector.** The Basel Core Principles (BCP) Assessment of 2015 showed that the regulatory framework developed by the COBAC was not aligned with global good practices. Since then, the COBAC adopted new prudential regulations (capital requirements, loan classification and provisioning, internal controls, and risk management). The COBAC is in the process of reviewing the on-site and off-site supervisory policies to migrate from a traditional supervisory approach to a risk-based one.

29. **The project will finance a review of COBAC's banking sector regulations and policies with a view to enhance its supervisory capabilities as follows:**

(a) TA for drafting procedures and Operations Manuals for risk-based supervision, particularly supervision on a consolidated basis, financial holding supervision, and internal controls

(b) Review of the technical framework developed by the COBAC for the implementation of micro-prudential stress tests (bottom-up approach), methodology, guidelines for banks, and design of the reporting and internal procedures for conducting stress testing

(c) Implementation of Pillar 2 of the Basel II framework

(d) Strengthening of the effectiveness of the AML /CFT regime and banking sector compliance

(e) Capacity building for the staff of both off-site and on-site departments

(f) Although the COBAC Action Plan does not identify migration to Basel II and III as a priority for the COBAC, the project could potentially finance preparatory studies to facilitate the complex migration to the news standards

30. **The project will also support the operationalization of the FOGADAC, the regional deposit guarantee scheme.** The FOGADAC is well capitalized (XAF 137 billion at end-September 2017) and has high levels of coverage in case of bank failure. However, its effectiveness has not been tested since its creation in 2009. The potential liquidation of a few banks across the region requires support to ensure that the FOGADAC can effectively respond in case of crisis. The project will finance the following activities to support the operationalization of the FOGADAC: (a) development of a backup staffing plan (including segregation of operational responsibilities, agreements with paying agents, and reimbursement processes (that is, software and manuals); (b) monitoring of systems implementation to ensure that banks report accurately financial information; (c) review of the FOGADAC's preventive functions to establish stricter preconditions for its intervention; (d) development of a communication and public awareness strategy to inform the customers about the deposit insurance arrangements; and (e) development under the COBAC's umbrella capacity-building programs on resolution of failing banks.

31. **The effective implementation of this component will allow COBAC to improve its banking supervision and crisis response capabilities.** A well-supervised banking sector will contribute to the prevention of financial crisis and will increase the trust of the population toward the system, which in turn can potentially increase financial inclusion. Furthermore, strong supervision of the sector will contribute to financial stability; reduce AML/CFT risks; and, more importantly, protect the deposits of the people.

Subcomponent 1.2.2. Microfinance Sector Regulation and Supervision

32. **The objective of this subcomponent is to improve COBAC's capacity in the areas of regulation and supervision, thus strengthening the resilience of the MFI sector which has been underperforming since 2014.** The MFI sector plays a significant role in the economy of several CEMAC member countries, especially for Cameroon, Gabon, and the Republic of Congo. With only 14 staff who are based in Libreville to cover more than 800 MFIs, COBAC faces a challenge to effectively supervise a vast and diverse sector which has been underperforming since 2014. COBAC lacks the relevant IT tools and internal capacity to effectively supervise the sector. As an important step to address this issue and consolidate the sector, the authorities have approved a new regional regulation that mandates small MFIs either to affiliate to a network or to exit the market and push for mergers between the medium and larger ones.

33. **A review of the prudential regulations and policies applicable to MFIs will help enhance COBAC's supervisory capabilities.** The project will finance (a) a diagnostic of the MFI sectors in the CEMAC countries; (b) support to update prudential regulation and implement a risk-based approach to MFI supervision; (c) support to implement new IT solutions in supervision (migration of SESAME to SPECTRA systems), including an early warning system for the MFIs (SYSCO-EMF); (d) translation and/or dissemination of any new MFI-related risk-based regulations; and (e) a feasibility study for a deposit guarantee scheme for the MFIs, including the main guidelines/parameters.

34. **The project will also help strengthen the capacities of local MFIs to allow them to produce reliable financial information thus facilitating offsite supervision by COBAC.** Today, many of the MFIs operating in the region do not have the resources to produce reliable financial data reflecting their performance. This poses serious problems for COBAC, as financial information filed by MFIs is inaccurate in many instances and, as a result, does not provide a clear picture of their financial health. Complementing the MFI supervisory activities (see paragraph 29), the project will provide MFIs with instruments and capacity-building opportunities. To this end, one or several private sector associations or

firms operating across the region will be identified to deliver the TA required to (a) develop accounting/management/reporting software for the MFIs, including implementation support and (b) capacity building on key issues (that is, loan administration, corporate governance, internal controls, and risk management).

35. **The effective implementation of this subcomponent will allow COBAC to improve its MFI supervision capabilities.** A well-regulated and well-supervised MFI sector will increase the trust of the population toward the system, which in turn can potentially increase financial inclusion. Furthermore, strong supervision of the sector will contribute to financial stability, reduce AML/CFT risks, and, more importantly, protect the deposits of the most vulnerable populations, which are the main users of the system.

Subcomponent 1.3. Implementation of IFRS Accounting and Auditing Standards by BEAC to Improve the Quality of Financial Information (IDA financing US$ 1.5 million credit)

Responsible agency: BEAC

36. **The project will support BEAC with the migration to International Financial Accounting and Reporting Standards (IFRS) to improve the quality of financial information and transparency.** Currently, BEAC prepares its financial statements in compliance with local reporting standards. In the context of the IMF safeguards mission, it was recommended that BEAC migrates to IFRS to improve the quality of financial information and transparency. The project will finance the following activities: (a) identification of a consulting firm to assist the BEAC with the migration process to IFRS and (b) capacity-building and certification process on new accounting and reporting standards of BEAC staff. To finalize the transition to the new standard, the project will provide capacity building to BEAC staff to ensure proper understanding of the new accounting rules and smooth implementation.

37. **The project will also support the modernization of BEAC's internal audit function to allow the institution to follow international good practices in auditing.** The internal audit function of BEAC needs to migrate to a risk based approach. To effectively do so, automation of procedures is required based on a detailed mapping of all risks faced by the institution. The project will support (a) recruitment of a consulting firm to design and implement the system, (b) purchase of the relevant software, and (c) capacity building for the staff of the internal audit function.

38. **Effective implementation of this component will improve quality of financial information, transparency and risk management of BEAC.** BEAC will prepare information in compliance with IFRS, which will in turn improve the quality of the financial information and transparency. It will also be able to better understand and control all its compliance and operational risks, which in turn will improve the governance of the institution.

Component 2: Strengthening the Capacity of BEAC and COBAC to Implement their Financial Inclusion Mandate (SDR 9.8 million, US$ 14 million equivalent)

Subcomponent 2.1. Payment Systems Infrastructure and Oversight (IDA financing US$ 8 million credit)

Responsible agency: BEAC

39. **The objective of this component is to improve the payment systems infrastructure, regulatory framework and oversight.** The payment systems infrastructure is aging and needs to be upgraded. Furthermore, the legal and regulatory framework is not in line with international good practices. A regional payment system approach has not been developed by the COBAC and BEAC. The existing structure remains complex due to the cohabitation of multiple regional regulatory frameworks (BEAC, COBAC, and country-specific regulations). This issue has resulted in increased uncertainty about applicability of regional and domestic laws, particularly in the area of e-money.

40. **The project will support the regional payment system infrastructure upgrade.** The CEMAC region has made notable efforts in introducing payment systems that support interbank and economic activity at a broader level. These systems which are operated by BEAC are: real time gross settlement system (SYGMA) and automated clearing system (SYSTAC) that supports bulk payments at a country level. However, the regional payment systems are still in a critical stage of transition from deployment of infrastructure to widespread adoption and usage of electronic payment instruments and services. Hence the project will support the creation of an integrated cost-effective platform that would allow current systems enhancement and integration of SWIFT solutions. In addition, the project will finance the purchase of SCOPE software, a modern tool to track transactions in foreign currencies.

41. **The project will support an assessment of the existing legal and regulatory framework applicable to payment systems.** The assessment will cover the existing payment systems regulations and will provide recommendations to update the legal and regulatory gaps. The scope of recommendations will cover (a) role of the BEAC; (b) scope of payment systems and services; (c) finality and irrevocability in payments and securities settlement systems; (d) issuance, oversight, and supervision of e-money; Internet banking; agent banking; and electronic funds transfer.

42. **The project will support the development of a regional payment systems strategy.** The strategy will focus on increasing access to and usage of payment services and will be guided by the Payment Aspects of Financial Inclusion (PAFI) framework which covers the following payment systems and services: (a) Large Value Payment Systems (Real-Time Gross Settlement [RTGS]); (b) financial cards and its usage on automated teller machine (ATM), point-of-service (POS) terminals and Internet (including GIMAC regional card scheme); (c) automated clearing house, including credit transfer and direct debit; and (d) mobile money, issuing of e-money, and interoperability. A special focus will be given to increasing access points and acceptance of payment services at merchants and government, issuing prepaid cards, designing programs for large-volume reoccurring payments specially for government payments and collections, and increasing access to mobile money, widening the services provided through mobile money and integrating them with other financial services.

43. **The project will support the development of the payment systems oversight function.** The project will finance the following activities: (a) development of an oversight framework; the framework

comprises objectives, roles of BEAC and other regulators, oversight instruments, and scope of implementation for different systems and services; (b) organization of workshops and trainings for the BEAC staff on implementing the self-assessment of their RTGS and Central Securities Depository (CSD) based on Principles of Financial Market Infrastructure; (c) provision of trainings and capacity-building events for on-site and off-site supervision of mobile money operators (banks or mobile operators) and their agents; and (d) support to the BEAC and COBAC with development of cooperation mechanisms for the oversight of payment systems and services.

44. **The project will finance an assessment of the government debt market.** The objective of the assessment is to diagnose the current market practices and provide reform recommendations. The assessment will cover (a) primary market structure, including primary dealers and issuing strategy; (b) secondary markets, including over-the-counter (OTC), wholesale, and retail markets; (c) types of trades, including repo, tri-party repo, and securities lending; and (d) management of collaterals through collateral pool, including the BEAC intraday, overnight, short- and medium-term credit facilities/loans, and guarantee funds.

45. **Effective implementation of this project will contribute to a more inclusive and stable financial sector in the CEMAC region.** A robust and resilient payment systems infrastructure and a modern regulatory framework will allow the development of innovative and accessible payment instruments adapted to the realities of the CEMAC populations, which can in turn contribute to the expansion of financial inclusion. A robust supervision framework will also contribute to the financial stability of the region.

Subcomponent 2.2: Promotion of Stable and Sustainable Financial Inclusion (IDA financing US$ 4 million credit)

Subcomponent 2.2.1. Regional Financial Inclusion Strategy and Data Collection

Responsible agencies: BEAC and COBAC

46. **The scope of this subcomponent is to support regional and national authorities, under the aegis of BEAC in promoting stable and sustainable financial inclusion.** BEAC (headquarters and national branches) and COBAC collect limited financial inclusion data in the region and when this is done, it is not systematic. As a result, there is an overall lack of information in terms of access to financial services, and qualitative information about financial institutions including products and services provided**.** The regional institutions have not opted for a regional approach toward the improvement of financial inclusion in the region. This makes it difficult to properly supervise financial institutions, develop a risk-based approach for both prudential and market supervision, or develop early warning systems. Additionally, the lack of supply-side data on access points, agents, number of accounts, and products and services does not allow effective monitoring of financial inclusion (key gaps/needs).

47. **The project will support the development of adequate systems and indicators to monitor financial inclusion as well as to collect qualitative data from financial institutions.** This will allow the implementation of a more risk-based supervisory approach and will enable stable and sustainable financial inclusion. The project will support (a) development of a set of indicators to collect supply-side data and qualitative data from financial institutions (including indicators on the cost of credit); (b)

financing of the necessary tools (hardware and software) to collect and publish such data; and (c) financing of a demand-side survey, in selected country pilots in the sub region, to identify consumers' financial habits and needs. Both the indicators and the survey, to the extent to which such data is available, will collect gender-disaggregated data and incorporate its analysis to identify gender-relevant challenges.

48. **The project will support the development of a regional financial inclusion strategy.** While selected national strategies exist (Cameroon and the Republic of Congo), not only have they not been implemented but they also contain several key actions which are in the remit of regional authorities. The regional strategy will identify key priorities and gaps to implement reforms. To develop such a strategy and implement relevant activities, it is key that all regional and national stakeholders, including the private sector, are consulted and are part of the governance structure of the strategy. The project will support the following activities: (a) diagnostics (including data diagnostics) to identify key gaps and binding constraints in financial inclusion, with particular regard to identifying constraining gaps to innovation; (b) setting up of a coordination structure for the preparation and implementation of the regional financial inclusion strategy; (c) design and development of the regional financial inclusion strategy; and (d) TA to the coordination structure for the implementation of the strategy and progress monitoring. An integral part of this strategy will be the targeting of vulnerable groups, including analysis of gender gaps in financial services provision and uptake and appropriate goals and actions to address these. The time line for the strategy development will allow for leveraging and building on the progress which is expected to be made under Subcomponent 2.1; hence, it will look at specific aspects relating to the promotion of digital financial services, beyond payments.

Subcomponent 2.2.2. Innovative Pilots to Promote Uptake of Financial Services and Products

Responsible agencies: BEAC and COBAC

49. **Based on the activities to be identified by the regional strategy, the project will support the implementation of innovative pilots to promote financial inclusion.** At present, innovation in the region is limited. Banks offer regular credit to salaried workers and e-money is being used mostly for P2P transfers and to buy airtime. Considering that a strong payment system is necessary to allow for innovation and payment services and products are a gateway to financial inclusion, this subcomponent will build on the activities to be undertaken under Subcomponent 2.1. Further, while the identification of specific constraints to financial inclusion, gaps, and market-based needs will need to await the finalization of the regional financial strategy, following this identification, the project is expected to support the regional authorities in implementing some of the activities, in particular those aiming at adopting innovative solutions.

50. **The project will provide TA to develop an adequate legal and regulatory framework to enable innovation.** While the COBAC and BEAC are currently working in reforming the legal and regulatory framework pertaining to payment systems by developing a provider and instrument neutral approach, depending on the specific types of innovations (for example, FinTech using alternative scoring models), the COBAC and BEAC may be required to revise existing laws and regulations or create adequate tools (for example, by creating regulatory sandboxes), to allow for selected innovative pilots to take place.

51. **The project will finance matching grants to finance financial technology (FinTech) pilots, to facilitate access to financial services particularly to women.** Through this component, the project will

finance selected pilots of FinTech, aiming at the delivery of financial services. Such technology-based solutions will need to address specific gaps identified by the regional financial inclusion strategy and can include, but not be limited to, pilots recurring for new lending techniques (for example, alternative credit scoring models) to provide credit to users lacking collateral; pilots using technology to identify clients (for example, single biometric identifier); or pilots providing innovative products to respond to users' needs. Specific selection criteria will be established in a separate operations manual and will be based on the findings of the diagnostics as well as on the activities to be identified by the regional financial inclusion strategy. However, to be selected, financial services providers will need to demonstrate that they are committed and sufficiently structured to develop and adopt innovative solutions as well as to share some part of the investment. One of the key selection criteria will be a demonstrated strong potential impact on financial inclusion. Particular attention will be given to those FinTech solutions aiming at increasing access to finance for women.

52. **Finally, considering the need to protect consumers to ensure responsible financial inclusion, the project will further support COBAC on strengthening financial consumer protection.** The project will build on the ongoing work conducted through a Financial Sector Reform and Strengthening Initiative (FIRST)-funded project to the COBAC, which includes a diagnostic that will inform the development of a uniform high-level framework for financial consumer protection. Following the development and entrance into force of such framework, the project will support the COBAC by providing TA to develop and issues relevant implementation decrees on (a) standardized disclosures, (b) customer mobility, and (c) product suitability. Further, the project will finance TA to the COBAC to enhance its supervisory capacity with regard to market conduct supervision.

53. **The effective implementation of this project will contribute to coordination of financial inclusion activities and enable a more inclusive financial sector in the CEMAC region.** The overall outcome of these activities should be better coordination and identification of key activities to be undertaken to promote financial inclusion as well as more innovation in the provision of financial services and products and stronger consumer protection, which should result in broader access and usage of quality financial services. Furthermore, by increasing the statistical capabilities of both the BEAC and COBAC, the regional institutions will be able to develop more informed action plans and policy decisions to address the financial inclusion challenges affecting the region. Some of the activities contemplated in this component, as explained in annex 1, will be complemented by other trust-funded TA activities.

Subcomponent 2.3. Modernization of BEAC's Public Credit Registry (IDA financing US$ 2 million credit)

Responsible agency: BEAC

54. **The objective of this subcomponent is to improve the quality, reliability, and integration of the regional credit registry.** After almost three decades of activity, the credit registry at the BEAC is dysfunctional and limited in scope. Indeed, despite its revision in 2009, the architecture of the credit registry in use, no longer corresponds to the technological evolution of IT platforms and modern information systems. This situation leads to many dysfunctions and limitations and distorts the quality of the financial information produced by the credit registry.

55. **The project will support the following activities:**

(a) A gap analysis of the existing PCRs in each CEMAC member country with recommendations on improving the existing registry

(b) Support to the BEAC to define and adopt an appropriate strategy for the establishment of a modern centralized regional credit registry with increased data processing capacity covering all financial institutions and the MFIs in all the CEMAC member countries

(c) Control and validation of the variety and level of data required from banks and financial institutions, including the MFIs

(d) Development of tools that exploit, as much as possible, the information contained in the regional credit registry databases to measure banks', financial institutions', and the MFIs' credit risk exposure and optimize the prudential regulation ensuring that provisioning and capital requirements are properly calibrated to cover expected and unexpected losses respectively

(e) Strengthening of the capacity of the BEAC and COBAC to exercise oversight over the credit reporting system

(f) High-level awareness raising/capacity-building workshops for the lender community and authorities in member countries and a regional credit reporting conference with participation of international speakers

56. **Effective implementation of these activities will improve banking sector regulation and supervision, especially with the availability of complete, accurate, and timely credit information.** The long-term impact of a PCR will be to optimize prudential regulation, ensuring that provisioning and capital requirements are properly calibrated to cover expected and unexpected losses respectively, as well as permitting the validation of banks' internal rating systems, performing stress tests, and informing macroprudential surveillance.

Component 3: Strengthening Capacity of GABAC to implement its Financial Integrity Mandate (SDR 2.7 million, US$ 4 million equivalent)

Subcomponent 3.1. Launch the 2nd Round of Mutual Evaluations of Member States' AML/CFT Regimes (IDA financing US$ 2 million grant)

Responsible agency: GABAC

57. **The main objective of this component is to allow GABAC to maintain its full membership to the FTAF and improve the understanding of AML/CFT risks and mitigation techniques.** This activity will support GABAC to also improve its capacity to monitor the efforts carried out by member states to comply with the revised FATF 2012 international standards. This process is done through Mutual Evaluations (MEs) and follow-up processes. Carrying out MEs and following up with member states on progress achieved in implementing the recommendations of the MEs is a core function of the GABAC, as a member of FATF. FATF recommendations and its assessment methodology have been revised in 2012 and 2013,

respectively. Therefore, the GABAC needs to launch a new round of MEs to support states in implementing the revised standards.

58. **The project will help GABAC in assessing levels of compliance of member states' AML/CFT regimes against the revised international standards by supporting** (a) the development of a pool of GABAC assessors under the revised methodology, (b) the implementation of the GABAC's ME calendar, and (c) the implementation of GABAC follow-up process as part of the GABAC Technical Commission meetings (twice a year).

59. **The effective implementation of this subcomponent is expected to result in increased understanding of the new AML/CFT international standards in the CEMAC region.** For each member state, it will lead to the preparation of (a) detailed diagnostics on the shortcomings of domestic AML/CFT regimes in relation to the standards and a determination of how effective they are in tackling financial crime and (b) a detailed set of recommendations on how to improve the effectiveness of local AML/CFT systems.

Subcomponent 3.2. Implementation of Technical Assistance Activities for Member States (IDA financing US$ 2 million grant)

Responsible agency: GABAC

60. **The objective of this subcomponent is to help GABAC deliver key TA activities to CEMAC member states to improve AML/CFT compliance in each member state and, incidentally, in the region overall**. Another core function of an FATF-style regional group is to provide TA to member states on the implementation of international standards. The revised international standards (that is, FATF Rec. 1) place an emphasis on ensuring that the domestic AML/CFT regimes are effective at helping countries reduce their risks of ML/FT through the implementation of an AML/CFT risk-based approach.

61. **The project will support member states to** (a) carry out a national assessment of their ML/FT risks and develop risk-based AML/CFT action plans to mitigate the risks identified; (b) carry out regional research and studies on the technics, trends, and modus operandi of ML/FT in the CEMAC region; (c) organize training sessions to disseminate the revised CEMAC AML/CFT regulation and enhance levels of compliance with AML/CFT requirements in sectors that are identified by domestic risk assessments as most vulnerable to ML/FT; (d) strengthen the capacity of domestic national intelligence units (financial intelligence units [FIUs]), law enforcement agencies, and the judiciary to detect, investigate, prosecute, and judge ML/FT cases related to important proceed generating crimes in the region; and (e) improve AML/CFT policy and operational coordination and cooperation at the regional level among other domestic AML/CFT stakeholders in the CEMAC, as well as between domestic AML/CFT stakeholders and regional bodies.

62. **Effective implementation of this component will allow GABAC to support member states with the implementation of AML/FT reform agendas.** As a result, GABAC will have fulfilled its core mandate of coordination and driving of AML/CFT reform in member states by being able to deliver targeted TA to its member states. In addition, CEMAC member states will have strengthened their AML/CFT regimes by better understanding their exposure to ML/FT risks, by implementing an AML/CFT risk-based strategy and better allocating their limited resources in high-risk sectors.

Component 4: Supporting selected reforms through results based financing (SDR 1.3 million, US$ 2 million equivalent))

63. **The project will finance the implementation of selected reforms through results based financing.** The implementation of selected reforms through DLIs encourages BEAC to implement key reforms that will respond to key financial stability and financial access shortcomings. The implementation of reforms through DLIs reinforces the overall positive impact of the project. The project's components respond to the 2015 CEMAC FSA and IMF's recommendations. The funds will be disbursed to BEAC who is responsible for the disbursement linked results (DLR).

64. **Disbursement of funds under this component will be subject to the achievement of the following DLIs (Annex 1 describes project details):**

a) DLI1: Adoption of a new foreign exchange CEMAC framework (US$ 1 million)
b) DLI2: Establishment of a private credit bureau in the CEMAC region (US$ 1 million)

Component 5: Project Implementation (SDR 2.1 million, US$ million equivalent)

Responsible agency: Project Implementation Unit (PIU)

65. **Project implementation cost.** This component will finance the operational costs of the regional PIU, including TA, coordination, procurement, financial management (FM), communications, and monitoring and evaluation (M&E) supervision.

B. Project Cost and Financing

66. **The project will be financed with an IDA regional credit and an IDA regional grant.** The abovementioned financing structure required two waivers from the Board of Directors of the World Bank. The waivers were endorsed by the World Bank Group's management on March 7, 2018. First, the operation required a waiver of footnote 45 of *The IDA 18 Resource Allocation Framework: Implementation Guidelines for FY 18,* which provides that "Credit resources should not be provided to regional organizations under the regional IDA program – support to regional organizations can only be provided to organizations that satisfy the criteria established for the regional IDA grant window." Second, an additional waiver was required for Section III.2 of the *Bank Policy: Financial Terms and Conditions of Bank Financing, July 1, 2017* provides that regional entities are ineligible to receive a regional IDA Grant under the IDA 18 Replenishment if they are eligible to receive a regional IDA Credit, (essentially if they that have capacity to borrow and can repay the loan). The funds will come from the IDA regional window. The grant portion of the operation should not flow (directly or indirectly) to the CEMAC member states who have IBRD status. The project will finance the achievement of results through two types of financing mechanisms: (a) results-based financing—where project funds will be disbursed against achieved selected key DLIs, based on results that trigger payments against Eligible Expenditure Programs (EEPs) and (b) traditional input-based financing in the form of goods and services.

67. **The annual disbursement targets and the expected impact of each DLI are presented in Annex 2.** The expected timing of various interim milestones has been identified. Annex 2 also includes the DLI verification protocols and a list of what constitutes eligible expenditures for each entity. The Financing

Agreement (FA) will specify the EEP of each institution along with the budget estimates. The EEPs will enable the BEAC in achieving these reforms, thus paving the way to achieve the PDO. The verification of the achievement of the DLIs and the eligible expenditures will be tracked and monitored on a regular basis by the respective implementation teams and coordinated by the PIU. Annex 2 provides a summary of the DLIs, the amounts allocated to each DLI target (referred to as 'Total value'), and the lead institution responsible for the achievement and schedule of eligible expenditures along with budget estimates.

Table 4. Total Costs (US$)

Project Components	Project Cost	IBRD or IDA Financing	Trust Funds	Counterpart Funding
IDA regional credit	25,000,000	25,000,000	0	0
Component 1	7,500,000	7,500,000	0	0
Subcomponent 1.1	6,000,000	6,000,000	0	0
Subcomponent 1.3	1,500,000	1,500,000	0	0
Component 2	14,000,000	14,000,000	0	0
Subcomponent 2.1	8,000,000	8,000,000	0	0
Subcomponent 2.2	4,000,000	4,000,000	0	0
Subcomponent 2.3	2,000,000	2,000,000	0	0
Component 4	2,000,000	2,000,000	0	0
Component 5	1,500,000	1,500,000	0	0
IDA regional grant	10,000,000	10,000,000	0	0
Component 1 Subcomponent 1.2	4,500,000	4,500,000	0	0
Component 3	4,000,000	4,000,000	0	0
Subcomponent 3.1	2,000,000	2,000,000	0	0
Subcomponent 3.2	2,000,000	2,000,000	0	0
Component 5	1,500,000	1,500,000	0	0
Front-end fees	0	0	0	0
Total project costs	35,000,000	35,000,000	0	0
Total financing required	35,000,000	35,000,000	0	0

68. **A Project Preparation Advance (PPA) of US$ 1.34 million has been provided to regional institutions to start preparatory work related to the project.** The PPA was signed in March 2018 and will finance key preparatory activities including but not limited to i) studies on the migration process to IFRS; ii) technical assistance to support the BEAC with the requirements for implementation of a new risk management framework for audit; iii) diagnostic study of the microfinance sector; and iv) design of the terms of reference on technical requirements of the new credit registry.

C. Lessons Learned and Reflected in the Project Design

69. **The project builds on the lessons learned from the previous CEMAC operation (Economic and Monetary Community of Central Africa Financial Institutions, P099833).** Thus, the number of beneficiary institutions has been reduced from six to three and the activities will be more focused. The beneficiary institutions were selected based on their track of implementation of reforms during previous operation.

Furthermore, rather than working at the institution level in an uncoordinated manner, the project has identified key financial sector themes, including stability, integrity, and inclusion, to deliver TA across the beneficiary institutions. This approach should encourage better regional cooperation across institutions and more effective implementation of the relevant reforms. A more robust and realistic M&E framework has been included to better track progress and development objectives. The institutional arrangements of the previous operation have been retained to take advantage of the capacity built during the previous operation. The task team also involved global experts during the design of the project and will do the same during the implementation support phase. To help foster a culture of result orientation, Component 4 of the project will disburse against DLIs.

70. **The work to strengthen MFIs' capacity will build on experience gained by the World Bank Group in Mexico with the implementation of the BANSEFI project that provided TA and IT support to financial cooperatives and MFIs.** The TA support was provided using a mechanism by which grants to purchase the services of pre-qualified TA providers were awarded to financial cooperatives and MFIs to address shortcomings that had been detected in the course of an initial diagnostic. Such grants contributed significantly to the formalization of the sector. The project also supported BANSEFI (a public bank) in establishing a technological platform that provides IT services (such as core banking and remittances) to over 350 MFIs and financial cooperatives. The lessons learned in the course of the projects supporting BANSEFI that were considered in the preparation of the present PAD point to (a) the outstanding importance of a precise diagnostic of the MFI sector to design proper oversight and consolidation mechanisms, (b) the importance of an approach that in parallel strengthens the supervision capacity of the authorities while supporting the consolidation of the sector, (c) the need to take a longer-term approach to strengthen the heterogeneous sectors of MFIs and financial cooperatives, and (d) the need to carefully select and incorporate qualified and experienced consultants and technical providers for the delivery of TA and for the design of IT solutions given the complexity of the tasks to be performed.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

71. **This new project will build on the well-performing implementation systems established by the previous CEMAC operation (Economic and Monetary Community of Central Africa Financial Institutions, P099833).**[15] It will be implemented by the PIU of the previous CEMAC operation (formerly known as *Unité de Gestion des Reformes des Institutions Financières,* UGRIF), anchored within the BEAC. The PIU will be responsible for project coordination and implementation, with full fiduciary responsibility for all activities of the project. In addition to the project coordinator and procurement and FM specialists, who are already in place, the PIU will be staffed with an M&E expert as well as a communication specialist to ensure better monitoring of project activities and to report regularly on the results achieved. A high-level Steering Committee will be established to provide strategic guidance to the project, to communicate and coordinate the effective implementation of the reforms across member countries and beneficiary organizations, and to ensure the achievement of intended objectives. A Technical Monitoring Committee will also be created to provide technical guidance to the PIU and review key project documents. To make the work of the PIU more effective and considering the geographical nature of the regional project, project

[15] The Government's project performance was rated Satisfactory in the Implementation Completion and Results Report (ICR) completed in March 2017.

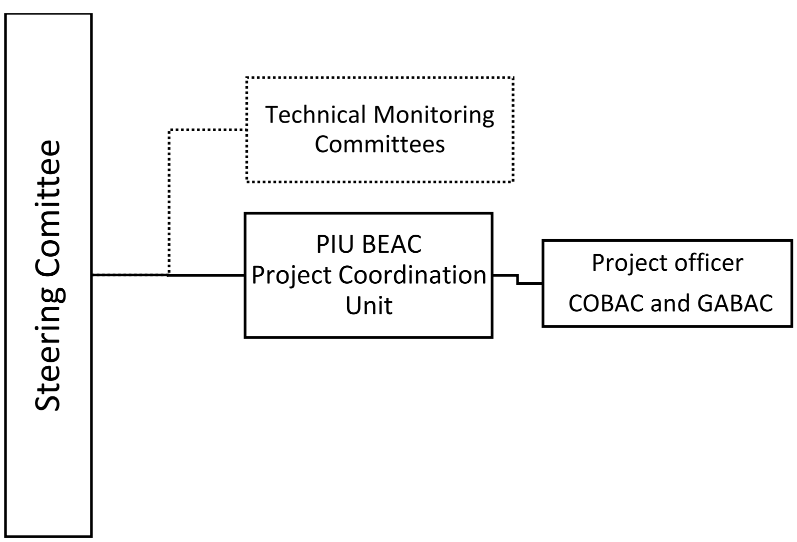
officers will be hired to support the implementation of the project in Libreville at the GABAC and COBAC. They will not hold fiduciary responsibilities. Their role will be to oversee implementation of activities and to provide direct communication channels between the PIU and the beneficiary CEMAC institutions, as well as between the Technical Monitoring Committee and the overall project Steering Committee.

72. **Institutional skills development.** The project will provide results-based capacity building to targeted CEMAC regional institutions (BEAC, COBAC, and GABAC) to reinforce their skills and capabilities during program implementation. The project will finance TA and equipment to the designated technical services to enable them to better carry out their functions.

73. **Project management.** The project will also finance activities related to project management and coordination. It will be managed on a day-to-day basis by the PIU based in Yaoundé, in coordination with in situ project officers and technical focal points appointed by the targeted financial institutions. Specifically, the project will fund M&E systems development, communication to project beneficiaries, goods, hiring of staff, consultant services, workshops, training, and office equipment.

74. **The Project Operations Manual will articulate the coordination between the PIU, project officers, and technical focal points, as well as the frequency of meetings between the Technical Monitoring and Steering Committees.** The organization of regular meetings between the beneficiary institutions, PIU, and the Technical Monitoring and Steering Committees will be necessary to ensure effective information sharing among beneficiaries. The PIU is currently composed of a project coordinator, a procurement officer, and an accountant. It will be strengthened with the recruitment of an FM specialist, an M&E expert, and a communication expert to ensure better monitoring of project activities and to communicate regularly on the results achieved. If needed, one additional project officer will be recruited to work with the COBAC and GABAC, in Libreville (or other city in case the headquarters of the beneficiary institutions change), to facilitate the coordination with the PIU based in Yaoundé. The PIU, project officers, and technical focal points will receive trainings on World Bank Group fiduciary procedures.

Figure 2. Organizational Structure



B. Results Monitoring and Evaluation

75. **The PIU will be in charge of monitoring both the PDO and intermediate indicators.** The PIU will hire an M&E expert to set up the methodologies, guidelines, and tools to systematically produce performance indicators to monitor progress. The three beneficiary institutions will provide the relevant data to the PIU. The PIU will then provide annual updates to the World Bank Group. The performance indicators are realistic and simple to monitor.

76. **A midterm review of the project will be carried out within 24 months from the effectiveness of the project.** This review will assess the project's ability to achieve the PDO as measured by the key performance indicators and progress made toward achieving the DLIs. The results will inform the implementation and supervision of the project.

C. Sustainability

77. **One of the key lessons learned from the previous operation was the lack of a strategic approach toward sustainability of the achievements of the operation after completion of the project.** Most of the staff who benefited from capacity-building opportunities in the previous operation have left their jobs. Most of the software procured during the previous operation have not been updated to the newer versions due to lack of allocated funding. The project will ensure that:

(a) Selectivity is applied to the potential staff benefiting from capacity-building opportunities;

(b) Capacity-building service providers develop interactive and written material that can be accessed by staff (e-learning modules); and

(c) Regional institutions are committed to improve budget management to ensure that budget allocation are provided to maintain and/or purchase software licenses and infrastructures procured by the project.

D. Role of Partners

78. **Multiple donors, including the AfDB, IMF, and World Bank Group (Macroeconomics and Fiscal Management, Finance and Markets, World Bank Treasury, and International Finance Corporation [IFC]) are providing financing and TA to the beneficiary institutions.** A mapping of the ongoing operations currently carried out by other partners can be found in table 5. The team is closely working with the IMF on the financial sector side and is actively reaching out to different donors, including the AfDB to coordinate the activities and avoid duplication of efforts.

79. **Since 2016, the international donor community has been intensifying its interventions to provide support to the CEMAC member countries and regional institutions to address both short-term financing needs and long-term capacity development requirements.** The IMF is currently working with the CEMAC member states to provide financial assistance to avert a financial crisis and restore macroeconomic stability, as well as debt sustainability. In June 2017, the IMF approved three-year arrangements under the Extended Fund Facility for Gabon for SDR 464.4 million (about US$642 million),

for Cameroon for SDR 483 million (about US$666.2 million), and for Chad for SDR 224.32 million (about US$312.1 million). Discussions with the Republic of Congo and Equatorial Guinea are ongoing. The World Bank Group is now preparing a series of Development Policy Operations for Gabon, Chad, Central African Republic and Cameroon. The World Bank Group's present project will complement the existing efforts to develop the institutional capacity of the CEMAC regional bodies, in particular, the BEAC, COBAC, and GABAC.

80. **The IMF is also providing its capacity building to the CEMAC regional institutions through its regional center, the Central Africa Regional Technical Assistance Center (AFRITAC Central).** The TA provided by AFRITAC Central covers a broad range of themes, including tax and customs administration, management of public finances, macroeconomic and budgetary analysis, macroeconomic and financial statistics, public debt management, and regulation and banking supervision. For 2017–2018, AFRITAC Central plans to deliver 472 person-weeks of capacity development activities to the CEMAC regional institutions.

81. **The AfDB is working on a financial sector operation involving the BEAC, COBAC, BDEAC, GABAC, COSUMAF, and CEMAC Commission.** The AfDB team leading the operation has made limited progress with the design of the operation. An identification mission took place in April 2017 and an aide memoire was left with the authorities. The World Bank Group is coordinating and sharing information to avoid duplication of activities.

82. **The BEAC is receiving TA by the IMF to implement the governance recommendations by the safeguards mission.** Following the 2013 report from the IMF's Safeguards Department, the IMF's Legal and Finance Departments have been providing TA to improve the governance of the BEAC. The contents of the Safeguards Department report and the type of TA provided remain confidential. The IMF's Legal Department has supported review of the BEAC statutes with the aim of enhancing the role of the Board of Directors particularly in the areas of financial stability (that is, articulation of the duties of the Board and of the *Comité de Stabilité Financière*) and internal decision making (that is, review of the collegiality principle). The IMF's Finance Department has provided guidance to the BEAC to prepare migration to internationally recognized accounting standards (IFRS) and capacity building to the Internal Audit Department to enhance internal control functions. The IMF encouraged the World Bank Group to support the BEAC with the final implementation of the IFRS migration and internal audit reform.

Table 5. Mapping of Donor Interventions and Mitigation/Coordination Measures

Institution/Donor	Area of Intervention	Duplication Risk - Mitigation Measures
AfDB	BEAC, COBAC, BDEAC, GABAC, COSUMAF, and CEMAC Commission	**Moderate**. The AfDB is in the process of putting together a financial sector operation. To mitigate the risk, both institutions are exchanging information and conducting regular conference calls.
IMF (including AFRITAC)	BEAC and COBAC	**Low.** The IMF has multiple programs aimed at addressing financial stability issues in the CEMAC region (monetary policy, foreign reserves management, BEAC governance, banking supervision, and resolution). The World Bank Group has coordinated actively with the IMF to ensure that interventions are coordinated and complementary.

World Bank Group	BEAC and COBAC	**Low.** The World Bank Group, through the Residential Access Modification Program, is negotiating a TA program to strengthen the capacity of the trading room of the BEAC. The CEMAC operation does not have components in this specific area. Furthermore, the World Bank Group is in the process of starting a FIRST project on supervision of the MFIs in the CEMAC region. The World Bank Group coordinated internally to ensure that both projects are complementary. Another FIRST-funded operation is supporting the COBAC in the area of consumer protection. The current operation will build on the findings of the this FIRST-funded TA. The IFC is supporting the development of collateral registries in the context of Organisation for the Harmonization of Corporate Law in Africa (*L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires,* OHADA) countries. Cameroon is one of the pilots. The current project will not work in the area of collateral. Finally, the project has taken into consideration the scope of ongoing statistical support projects across the CEMAC region (see annex 6) to ensure coordinated delivery and avoid duplication of efforts.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

83. **The overall risk of the operation is Substantial.** While all the proposed activities are relevant for the development of the financial sector in the CEMAC region, the current political, governance, macroeconomic environments and institutional capacity and fiduciary limitations of the regional institutions can pose threats to the successful implementation of the project. Furthermore, the poor implementation performance of the previous CEMAC operation, as rated in the ICR shows the high risks and implementation complexities of a regional operation with the CEMAC institutions. Mitigation measures have been identified per risk to ensure effective implementation of the program as described in paragraphs 83-86.

84. **Political and governance risk (Substantial).** Although the political environment in the CEMAC region seems stable, recent examples show the volatility of the region (that is, the political unrest in the Central African Republic from 2011 to 2014). Ongoing civil unrest in Cameroon (the most important CEMAC member country) can significantly delay the implementation of the BEAC activities if civil disturbances taking place in the northern territories move to the capital, Yaoundé. Similar challenges can be faced if Boko Haram starts conducting terrorist attacks in cities where CEMAC institutions are headquartered. To mitigate these risks, the CEMAC regional institutions have contingency/relocation arrangements set in place. Another area of concern is the complex governance structure of the CEMAC regional institutions. Lack of political consensus among member countries can significantly delay the implementation of reforms at the regional level. However, the crisis environment generated by the fall of oil prices has created reform momentum in the region. Regional authorities have become more effective in the implementation of key reforms (i.e. development of reform action plans (Box 1), implementation of governance reforms recommended by the IMF (Box 2) or recent decision to merge the two stock

exchanges). A steering committee composed of the heads of the regional institutions will be created to ensure commitment at the highest level to the implementation of the reforms financed by the project.

85. **Macroeconomic risk (High).** As explained earlier, the macroeconomic situation of the region is delicate. If policy decisions are not implemented, a more significant crisis can take place. If the macroeconomic environment worsens, it can potentially distract the regional authorities from implementation of the project. Further macroeconomic degradation could even put at risk the peg of the XAF with the Euro which could eventually make the regional monetary union unviable. This scenario could make the project irrelevant. To mitigate this risk, all the activities included in the project have been designed based on the strategic priorities of the three beneficiary institutions. The factor outside of the project that could mitigate the high macroeconomic risk is the International Monetary Fund and World Bank Group programs currently being implemented across CEMAC member countries.

86. **Fiduciary risk (substantial).** Fiduciary risk is rated as substantial. A number of shortcomings have been identified during the FM and procurement assessments of the PIU including lack of financial management specialist, low capacity of the regional institutions, inclusion of DLIs in the operation and poor filing practices. A comprehensive action plan was prepared to mitigate these risks including capacity building, recruitment of financial management experts, simplified approach towards DLIs. In addition, a key mitigation factor will be the experience of the PIU on managing World Bank funded projects. The ICR of the previous operation, CEMAC Regional Institutions Support Project (P099833) rated the performance of the PIU as *satisfactory* and no FM or procurement issues were reported during the life of the project. For a detailed description of the fiduciary and procurement risks, please see annex 3, tables 2.1, 2.2 and 2.3.

87. **Institutional capacity for implementation and sustainability (Substantial).** Regional institutions suffer from inadequate institutional capacity and frequent staff rotations, which can affect the implementation pace of the project. In the previous operation, staff from the PIU were appointed with important delays and there was a high turnover of focal points over the life of the project. Furthermore, it took time for the regional institutions to become acquainted with Bank procedures particularly in the areas of procurement and FM. To mitigate these risks, the operation will only work with the institutions that performed well in the previous operation (BEAC, COBAC, and GABAC). In addition, the project will use the PIU of the previous operation and will ensure that it is fully operational when it moves into implementation. All PIU staff from the previous operation will remain unchanged. A realistic action plan has been prepared with the beneficiary institutions to ensure effective implementation progress during the first 18 months of the project.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

88. **The project will strengthen the capacity of the CEMAC regional financial institutions, specifically the BEAC, COBAC, and GABAC, by means of TA from the World Bank Group.** The project's activities will equip these regional financial institutions with data processing software, improved processes, and capacity to create and implement the necessary legal framework to fulfil their mandates of financial stability, inclusion, and integrity. Various categories of activities will be used, including: (a) skill upgrading,

(b) procedural and process improvements, and (c) organizational strengthening. The project will mostly focus on the delivery of technical assistance to the regional organizations. Delivering channels will include trainings, workshops, seminars, consultative missions, on-site visits, peer review, research and assessment studies, and internships for statisticians.

89. **The cost-effectiveness analysis established that the activities of the project constitute the least-cost method of achieving the desired PDOs.** This conclusion was based on the comparison of alternative approaches, both from an institutional and a methodological perspective. From an institutional standpoint, costs were considered in scenarios where a donor organization is the IMF or the AfDB versus the World Bank Group and the beneficiary organizations are the national governmental agencies versus the regional financial institutions. From a methodological standpoint, alternative scenarios evaluated the costs of using twinning versus the delivery channels foreseen by the project, such as trainings, workshops, seminars, consultative missions, on-site visits, peer review, research and assessment studies, and internships for statisticians. Finally, the sensitivity analysis identified several variables that could delay or speed up the implementation of the project. Specifically, these variables are the timeliness of procurement, stability of the macroeconomic environment, and the security situation in the region. Alternative ways of achieving the desired PDOs will be revisited during the midterm review. Annex 5 provides details on economic and financial analysis.

B. Technical

90. **The World Bank Group has extensive experience in implementing financial stability, integrity, and inclusion projects across the world.** The institution has acquired significant expertise in fostering the development of stable and inclusive financial systems across the world. Therefore, it is uniquely positioned to strengthen financial institutions and financial intermediation in the CEMAC region. The World Bank Group has a global mandate on financial depth and stability with an objective of developing sustainable financial institutions and markets and mitigation of financial crisis. Furthermore, it also has the mandate to expand financial inclusion for individuals and firms around the world. Finally, it has extensive experience working with regional institutions around the world (West African Economic and Monetary Union [WAEMU], East African Community, CEMAC, Organization of Eastern Caribbean States [OECS], and EU). As for the previous operation, the World Bank Group will use its convening powers to allow regional institutions to cooperate more effectively.

91. **The design of the operation is based on the main findings and reform action plan of the CEMAC 2015 Financial Sector Assessment Program (FSAP).** This FSAP provided a reform action plan for the short, medium, and long term. The FSAP included a series of technical notes which provided in-depth analysis and reform recommendations in the following areas: banking and MFI supervision, financial stability, financial inclusion, payment systems, and AML/CFT.

C. Financial Management

92. **The FM systems of the BEAC have been evaluated by the Bank and certain areas require strengthening.** An FM assessment was conducted at the BEAC to ensure that the proposed FM arrangement within the PIU remains adequate and complies with the minimum FM requirements. The assessment noted that the PIU’s Procedures Manual complies with key FM requirements, including budgeting, accounting, and reporting arrangements under the Economic and Monetary Community of

Central Africa Financial Institutions Project. The manual is being updated for the new project. In addition, the BEAC accounting software, developed under ORACLE, was customized to respond to the accounting and reporting needs under the previously mentioned project and shall be used for the new project. An accountant with satisfactory experience under the previous Bank-funded project, will be responsible for maintaining a record of the project transactions.

93. **The project's FM arrangement is foreseen to rely on the existing arrangement within the BEAC that applied to the previous Economic and Monetary Community of Central Africa Financial Institutions Project.** Hence, the regional orientation of the project that will be implemented within the BEAC will not follow the country FM arrangements established in Cameroon to manage donor-funded projects. These arrangements are centered on two main institutions: (a) the autonomous sinking funds (CAA) equipped with specific tools: (i) a standardized FM manual and (ii) an integrated FM system for donor-funded projects (namely SIGED)[16] and (b) the Ministry of Public Procurement in charge of ex ante control of all suppliers' invoices associated with a contract before any payment by the CAA.

94. **Therefore, considering the above, the following measures have been set in a dated covenant:** (a) the Procedures Manual will be revised in light of the new project implementation and management requirements, and (b) the BEAC's internal audit unit will include the project activities in its audit scope, with a clear reporting time line.

95. **The project will be externally audited by a reputable firm.** With regard to the external audit, KPMG is currently auditing the BEAC operations and would be relied on to audit the project's annual financial statements and internal controls, based on terms of reference (ToRs) acceptable to the World Bank.

96. **The project component 4 will be implemented following a result based financing (DLI financing mechanism that will lie on the BEAC own financial resources)**. Hence no advance is expected nor a specific DA for the operation. However, to ensure the project design will respond to any financial gap and subsequent advance request from BEAC during implementation, the disbursement letter will give the option of disbursing an advance to a DA that will be opened should the need arise.

97. **The DLI comprises five Disbursement linked Result (DLRs).** Upon achievement of the DLR, the BEAC can request disbursement at the end of each year after its achievement has been formally verified by the World Bank and confirmed. No disbursement could be expected against a DLR if the associated target is not met. These arrangements around component 4 will be further detailed in the procedures manual and the disbursement letter.

98. **The overall FM residual risk is assessed as Substantial.** The FM assessment and detailed FM arrangements are described in annex 3.

D. Procurement

99. **The procurement activities for the project will be executed by the PIU of the previous CEMAC operation (formerly known as *Unité de Gestion des Reformes des Institutions Financières,* UGRIF),**

[16] Integrated Disbursement Management System (*Système Intégré de Gestion des Décaissements*).

anchored within the BEAC. The PIU will carry out the following activities: (a) managing the overall procurement activities and ensuring compliance with the procurement process described in the relevant manuals; (b) ensuring compliance of bidding documents, draft Requests for Proposals, evaluation reports, and contracts with World Bank procedures; (c) preparing and updating the Procurement Plan in relation to the beneficiaries; (d) monitoring the implementation of procurement activities; (e) developing procurement reports; and (f) seeking and obtaining approval of internal designated national entities and then from IDA on procurement documents as required.

100. **The beneficiary agencies will participate in the process of all procurement activities and will notably support the following activities:** (a) preparation of ToRs and the bidding documents, (b) preparation of evaluation reports and contracts related with World Bank procedures, and (c) participation in procurement commission activities and all related meetings.

101. **An assessment of the PIU's procurement capacity concluded that the PIU has the capacity to carry out procurement according to the World Bank Group procedures.** The assessment reviewed the organizational structure for the implementation of the project, the procurement systems and procedures of the PIU, and the interaction between the different agencies involved in the project. The assessment revealed that (a) the agencies have the technical expertise to prepare the technical documents (ToRs, bidding documents, and technical specification), which may be reinforced for specific activities by consultants to be recruited; (b) procurement capacity, especially in IDA financing, is acceptable at the level of the PIU; notably, the PIU has recently satisfactory implemented a World Bank-financed project, which closed in 2016, and the former coordinator and procurement specialist are still in place; and (c) filing needs improvement.

102. **The assessment identified potential risks and proposed mitigation measures.** The key risks identified for procurement under the project are the following:

(a) Staff involved in the project may not have sufficient knowledge of the New Procurement Framework (NPF) and/or there may be a risk of confusion with the former guidelines.

(b) Inadequate communication and interaction between the beneficiaries and the PIU may lead to delays in procurement processes and poor cost estimations.

(c) Internal administrative procedures may increase delays in the procurement processes and affect project implementation.

(d) Poor filing may lead to loss of documents.

103. **The project will support the PIU with the following mitigations measures:**

a. Organize, at the beginning, of the project, workshop sessions on NPF to train all staff involved in the procurement of the project;

b. Keep continuous hands-on training, during the life of the project, for all key identified staff;

c. Update the existing manual of administrative, financial and accounting procedures to consider the new project and clarify the role of each team member involved in the procurement process of the project and the maximum delay for each procurement stage, specifically about the review, approval system, and signature of contracts;

d. Exercise quality control on all aspects of the procurement process, including developing ToRs, technical specifications, bidding documents, proposals, request of quotations, evaluation, and award;

e. Monitor, on regular basis, the Procurement Plan implementation and set up a close follow up in relations with beneficiaries to ensure appropriate actions are taken on time;

f. Improve the filing system at the PIU level to ensure compliance with World Bank procurement filing manual.

104. **A project Procurement Strategy of Development (PPSD) and a derived Procurement Plan for the first 18 months of project implementation has been prepared in compliance with World Bank Group standards and procedures.** During implementation, the Procurement Plan will be updated, as required, at least annually to reflect the actual program implementation needs and improvements in institutional capacity.

105. A summary of the PPSD in a table including major procurement activities is in Annex 3.

E. Social (including Safeguards)

Not applicable

F. Environment (including Safeguards)

Not applicable

G. Other Safeguard Policies (if applicable)

106. **The project will have a strong communications strategy to ensure that the end beneficiaries of the project understand the benefits of the reforms financed by the operation**. The project is of the nature of a public good, benefiting the member economies and their populations at large. Taking into consideration the complexity of the reforms supported by the operation and the importance of effective citizen engagement, a communications strategy around the supported reforms will be developed to explain the benefits of the reforms to the citizens of the CEMAC countries. The project will use the field based World Bank Group communications staff to develop a comprehensive communications program for the project. In addition to the communications strategy, the project will engage with the MFI sector in the context of the citizen engagement (see paragraph 34).

H. World Bank Grievance Redress

107. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms

or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service*. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Africa
Strengthening the Capacity of Regional Financial Institutions in the CEMAC Region

Project Development Objectives

The Project Development Objective (PDO) is to strengthen the capacity of selected CEMAC regional financial institutions to implement their mandates in the areas of financial stability, inclusion and integrity.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Increased capacity of BEAC to produce reliable financial, monetary and economic statistics on a monthly basis.		Text	No data published	Data updated and published every month	Every 6 months	BEAC	PIU

Description: "Increased capacity" under this indicator will be measured by the periodic (monthly, quarterly, etc) availability of financial, economic and monetary information in the BEAC’s website.

Context: It is expected that by the end of the project, most (80%) of the 27,000 economic data series that will compose the EFMD will be filled and updated at least on a monthly basis, based on information provided by member countries. The content of the EMFD will be accessible online (on the BEAC website) through dedicated simple

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
query tools. Thanks to the production of the data the BEAC will be able to make monetary policy decisions based on accurate data.							
Name: Increased capacity of COBAC to supervise banks under new risk based supervision framework.		Percentage	0.00	100.00	Every 6 months	COBAC	PIU
Description: "Increased capacity" under this indicator will be measured by the percentage of banks supervised under the new risk based supervision framework. In addition, "New risk based supervision framework" refers to the supervisory methodology developed with the support of the project (off site supervisory manuals) between Y1 and Y3 and subsequent versions. Context: COBAC will implement a risk-based supervision process. The support provided through the project will complement the technical assistance provided by the IMF through AFRITAC. It is expected that off-site surveillance manuals for risk based supervision are drafted and tested by year 2 and fully implemented by year 3, that systemic banks internal control frameworks are aligned with supervisory assessment (reglement COBAC 2016-04) by year 3 and frameworks of all other banks by year 5, and that pillar 2 of Basle II framework approach by COBAC disseminated to the banks by year 3.							
Name: Increased capacity of BEAC to expand the population coverage of the regional credit registry.		Percentage	0.00	15.00	Every 6 months	BEAC - Doing Business database	PIU
Increased capacity of BEAC to expand the female population's coverage of the regional credit registry.		Percentage	0.00	12.00	Every 6 months	BEAC - Doing Business database	PIU
Description: "Increased capacity" under the current indicator will be measured by the percentage of the adult population covered by the regional public credit registry. Currently there is no regional credit registry in the CEMAC region. There are only national credit registries that do not provide comprehensive data. The regional credit registry will harmonize the production of credit information at the national level and will provide a comprehensive overview of credit history of individuals and firms at							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
the regional level.							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Increased capacity of GABAC to comply with the FATF membership requirements.		Yes/No	Y	Y	Every 6 months	GABAC	PIU

Description: "Increased capacity" under this indicator will be measured by GABAC maintaining its membership status at the FATF (which includes compliance by GABAC with the 2012 FATF standards).

Context: GABAC became an associate member of FATF in 2014 and then a full time member in 2017. However, in order to keep its current status the GABAC has to conduct mutual evaluations, national risk assessments and typology studies in member states which is a requirement for the membership. Lack of financial resources and capacity hamper the possibilities of the institution to maintain its member status. As part of the FATF International Cooperation Review Group, aka, “Black-listing” process, one of the criteria that lead countries to be automatically subject to FATF review relates to not belonging to an FATAF Style Regional Body (FSRB). By loosing the FSRB status, GABAC would subject the six CEMAC countries to FATF review and potentially addition to the list of non-cooperative country. In other words, CEMAC countries could be black-listed by the FATF. Being listed as a non-cooperative country can lead to the imposition of sanctions by all members of the FATF and members of other FSRBs, resulting in serious increase of costs of doing business with the region and potential “de-risking”.

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: The Composite Index of Economic Activity is computed based on date from 6 countries and		Text	No data published	CIEA is compiled with date from 6	Every 6 months	BEAC	PIU

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
published on a quarterly basis.				countries and published on a quarterly basis			

Description: The CIEA will be computed from information provided by each CEMAC member country. The exact computation method and the arrangements to ensure that all member countries will be able to provide requested information in due time will be discussed within the project. The CIEA will be computed on a quarterly basis and published on the BEAC website.

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: BEAC to prepare financial statements in compliance with IFRS standards by year 2		Yes/No	N	Y	Every 6 months	BEAC	PIU

Description:

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Adoption of an operations manual outlining key FOGADAC's responsabilities, procedures and relevant documentation for the rapid an effective resolution of a failing bank by year 3		Yes/No	N	Y	Every 6 months	COBAC	PIU

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description:							
Name: Implement risk based supervision for MFIs by Year 3		Yes/No	N	Y	Every 6 months	COBAC	PIU
Migrate MFI data from SESAME to CERBER system by year 2		Yes/No	N	Y	Every 6 months	COBAC	PIU
Develop methodologies, procedures and systems to conduct risk based supervision by year 2		Yes/No	N	Y	Every 6 months	COBAC	PIU
Produce reports and dashboards with KPI on MFI performance by year 3		Yes/No	N	Y	Every 6 months	COBAC	PIU
Description: Implementation of a risk based approach is a complex task and will be completed in three phases as described in the subindicators below							
Name: Assess MFIs financial conditions under the new risk based framework		Percentage	0.00	100.00	Every 6 months	COBAC	PIU
Description:							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Updated regulations for issuing and processing emoney by year 2		Yes/No	N	Y	Every 6 months	BEAC-COBAC	PIU
Description:							
Name: Regional financial inclusion task force created by year 2		Yes/No	N	Y	Every 6 months	BEAC-COBAC	PIU
Description:							
Name: Financial inclusion indicators produced and published by year 3		Yes/No	N	Y	Every 6 months	COBAC - BEAC	PIU
Description: Financial inclusion indicators will be defined after a detailed diagnostic of what is being collected and what data is currently available in the region. The indicators will be based on international guidance and examples (including G20 / GPFI and WB guidance). Amongst the indicators to be collected the following indicators will be surely present: number of adults have access to a transaction account (demand side); number of transaction accounts (supply side); number of people having used a transaction account in the past year (demand side); number of active transaction accounts in the part 90 days (supply side). Transaction account will be defined according the WB CPMI definition.							
Name: Conduct at least 2 innovative pilots in selected economies		Number	0.00	2.00	Every 6 months	BEAC	PIU

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Percentage of women amongst the new financial services users reached through innovative pilots in selected countries		Percentage	0.00	50.00	Every 6 months	BEAC	PIU
Description: The TORs and scope of the innovative pilots will be decided after the completion of the regional financial inclusion strategy.							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Adopt private credit bureau law by year 2		Yes/No	N	Y	Every 6 months	BEAC	PIU
Description:							
Name: Private credit bureau operator selected by year 4		Yes/No	N	Y	Every 6 months	BEAC	PIU
Description:							
Name: Number of mutual evaluations carried out in CEMAC member countries using the revised FATF methodology		Number	0.00	6.00	Every 6 months	GABAC	PIU
Description:							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of staff trained to carry out mutual evaluations by year 2		Number	0.00	15.00	Every 6 months	GABAC	PIU
Description:							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Increased capacity of BEAC to produce reliable financial, monetary and economic statistics on a monthly basis.	No data published	No data published	No data published	Data updated and published every 6 months	Data updated and published every 3 months	Data updated and published every month	Data updated and published every month
Increased capacity of COBAC to supervise banks under new risk based supervision framework.	0.00	0.00	0.00	50.00	75.00	100.00	100.00
Increased capacity of BEAC to expand the population coverage of the regional credit registry.	0.00	0.00	5.00	10.00	12.00	15.00	15.00
Increased capacity of BEAC to expand the female population's coverage of the regional credit registry.	0.00	0.00	2.00	5.00	7.00	12.00	12.00
Increased capacity of GABAC to comply with the FATF membership requirements.	Y	Y	Y	Y	Y	Y	Y

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
The Composite Index of Economic Activity is computed based on date from 6	No data published	No data published	No data published	CIEA is compiled based on data	CIEA is compiled based on data	CIEA is compiled based on data	CIEA is compiled with

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
countries and published on a quarterly basis.				from 4 countries, at least	from 5 countries, at least	from 6 countries	date from 6 countries and published on a quarterly basis
BEAC to prepare financial statements in compliance with IFRS standards by year 2	N	N	Y	Y	Y	Y	Y
Adoption of an operations manual outlining key FOGADAC's responsabilities, procedures and relevant documentation for the rapid an effective resolution of a failing bank by year 3	N	N	Y	Y	Y	Y	Y
Implement risk based supervision for MFIs by Year 3	N	N	N	Y	Y	Y	Y
Migrate MFI data from SESAME to CERBER system by year 2	N	N	Y	Y	Y	Y	Y
Develop methodologies, procedures and systems to conduct risk based supervision by year 2	N	N	Y	Y	Y	Y	Y
Produce reports and dashboards with KPI on MFI performance by year 3	N	N	N	Y	Y	Y	Y
Assess MFIs financial conditions under the new risk based framework	0.00	0.00	0.00	40.00	75.00	100.00	100.00
Updated regulations for issuing and	N	N	Y	Y	Y	Y	Y

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
processing emoney by year 2							
Regional financial inclusion task force created by year 2	N	N	Y	Y	Y	Y	Y
Financial inclusion indicators produced and published by year 3	N	N	N	Y	Y	Y	Y
Conduct at least 2 innovative pilots in selected economies	0.00	0.00	0.00	0.00	1.00	1.00	2.00
Percentage of women amongst the new financial services users reached through innovative pilots in selected countries	0.00	0.00	0.00	0.00	50.00	50.00	50.00
Adopt private credit bureau law by year 2	N	N	Y	Y	Y	Y	Y
Private credit bureau operator selected by year 4	N	N	N	N	Y	Y	Y
Number of mutual evaluations carried out in CEMAC member countries using the revised FATF methodology	0.00	1.00	1.00	2.00	1.00	1.00	6.00
Number of staff trained to carry out mutual evaluations by year 2	0.00	0.00	15.00	0.00	0.00	0.00	15.00

ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : CEMAC Regional Institutions
Strengthening Financial Regional Institutions and Intermediation in the CEMAC Region

Component 1. Strengthening the Capacity of BEAC and COBAC to Implement their Financial Stability Mandate (SDR 8.4 million, US$12 million equivalent)

Subcomponent 1.1. Strengthening BEAC Capacity to Identify and Mitigate Macro-Financial Risks and Improving the Analytical Tools to Support Better Monetary Policy Decision-Making Process (IDA Financing US$ 6 million credit)

Development of Methodology and Tools to Conduct Macro-Prudential Stress Tests

108. **Currently, the macro-financial stability analysis is mainly based on experts' judgement.** The BEAC wishes to strengthen its capacity to perform risks analysis by developing a tool that will help assess the consequences of different types of macroeconomic shocks on the financial stability of the region and its member states. The project will fund (a) TA to allow the team in charge of the implementation of macroprudential stress tests to develop the relevant methodology and (b) the purchase and development of the related IT tool.

Development of Methodologies and Procedures for the Computation of the CIEA and other short-term indicators

109. **The few short-term indicators available in the CEMAC member countries may provide contradictory signals on the evolution of economic activity.** In the absence of synthetic regional economic information, the BEAC has difficulties in basing its decisions of monetary policies on objective information. The BEAC consequently wants to set up a regional CIEA, which will complete the standardized data contained in the EFMD. The CIEA is a key element of the assessment of the economic situation, in this context where basic indicators can provide conflicting messages. A BEAC working group has designed the method to be used for the computation of the CIEA, but the BEAC does not have the necessary resources for the member states of the CEMAC to produce basic indicators to be used for the computation of the CIEA. The project will support the BEAC for the production of the CIEA through the following activities: (a) organization of an assessment mission in each CEMAC member country to take stock of the current situation of the compilation of economic indicators and projects under way or in preparation for their development; (b) organization of a seminar to launch the implementation of the CIEA during which the methodology of computation of the CIEA will be presented to the member states and the list of indicators to be included in the CIEA will be discussed; (c) support for the production of the indicators in the member states where no other initiatives are supported (including regional workshops, TA missions, and support for the collection of the data necessary for the computation of the indicators, as needed); and (d) regional follow-up seminars.

Further Development of the EMFD

110. **The project will also support regular updating of the EMFD.** The collection of statistics data in the CEMAC member states relies on focal points in national administrations: NSIs (real sector, external

trade, sectoral, and demographic statistics), units in charge of the public debt, customs, and units in charge of Government finance statistics. It comes in addition to the information that the BEAC may collect internally or externally (balance of payments, exchange rate, and so on) and monetary and financial statistics. The project will fund semiannual meetings of focal points; these meetings are intended to maintain close contact with focal points, share national experiences in data collection, problems encountered, and solutions that can be provided. They will ensure a fluid flow of information from national administrations to the EMFD. This information consists not only of data but also metadata, which will ensure that users can better understand the methodological differences among statistics produced by countries and thus make more effective use of data. The project will also (a) fund the collection of historical statistical data not yet collected, (b) support the renewal of licenses necessary for the functioning of the EMFD and development of the tools necessary for the proper functioning of the database, and (c) include a training component for the BEAC IT staff working on the EMFD so that, by the end of the project, the IT staff are able to develop such tools without external assistance.

Capacity Building

111. **Finally, the project will fund the training of around 15 BEAC staff, including IT staff members, on database management software used to operate the EMFD.** In addition, the project will fund three-month internships for five students of the regional statistics school (*Institut Sous-Régional de Statistique Et d'Economie Appliquée*) so that they can participate in the implementation of indicators related to the CIEA in countries where these indicators are missing or need improvement. It will be interesting for the students to participate in a project that is useful to national and regional authorities and for host countries to get additional well-trained human resources, especially when local human resources are scarce.

112. **Effective implementation of this component will allow the BEAC to better fulfill its mandate in the area of monetary policy thus improving financial stability.** With reliable statistical information and databases, the BEAC's authorities will have additional tools to better substantiate their monetary policy decisions. Stress test tools will allow the BEAC to respond in a more informed manner to macroeconomic events, which in turn will help preserve the financial stability of the region. It must be noted that many initiatives led by various partners (including World Bank country-specific projects, IMF, AfDB, and the EU) are already assisting the CEMAC countries to improve their national statistics system. The proposed project will complement the ongoing efforts. The World Bank Group has coordinated with all stakeholders to ensure good collaboration and complementarity of actions in the field. A description of the current initiatives possibly related to the proposed project is provided in annex 6.

Subcomponent 1.2. Strengthening the Capacity of COBAC to Improve Banking and Microfinance Regulation and Supervision (IDA Financing US$ 4.5 million grant)

Subcomponent 1.2.1. Banking Sector Regulation and Supervision

113. **The objective of this subcomponent is to support the process started by the COBAC to strengthen the resilience of the banking sector.** The BCP Assessment conducted in 2015 showed that the regulatory framework developed by COBAC was not aligned with global good practices, in particular in the areas of compliance with minimum capital requirements, credit exposure diversification, loans to related parties, transparency, risk management, AML/CFT, and cross-border supervision. To address these shortcomings, the COBAC has reviewed in 2015 and 2016 key regulations, including regulatory capital,

loan classification and provisioning, internal controls and risk management. In addition, COBAC has adopted an action plan for 2016–2019 to implement the framework for risk-based supervision. The project will support the COBAC with the implementation of the regulatory initiatives included in its action plan to enhance its supervisory capabilities and ensure regulatory compliance by banks. The project will support the following activities: (a) TA for drafting procedures and Operations Manuals for risk-based supervision, especially supervision on a consolidated basis, financial holding supervision, and internal controls; (b) implementation of Pillar 2 of Basel II framework; and (c) capacity building for the staff of both off-site and on-site departments, with dedicated medium-term training plans.

114. **Prudential supervision of AML/CFT issues by the COBAC and local authorities must be enhanced considering the regional security challenges.** The CEMAC region faces major ML and FT risks. The provisions for freezing terrorist assets, defined by the CEMAC regulations, are not implemented effectively across the region. To strengthen the effectiveness of the AML/CFT regime and banking sector compliance, the project will support the following initiatives: (a) review and upgrade the COBAC regulatory framework in place since 2005, with a view to align it with the new CEMAC regulation on AML/CFT of 2016; (b) support the COBAC with the development of new methodologies for a risk-based approach on AML/CFT particularly in the area of on-site inspections; (c) provide capacity-building opportunities for the bank supervisors, including lawyers; and (d) review the technical framework developed by the SG-COBAC for the implementation of micro-prudential stress-tests (bottom-up approach), methodology, guidelines for banks, and design of the reporting and internal procedures for conducting stress-testing.

115. **The COBAC requires support to further operationalize FOGADAC, the deposit guarantee scheme.** FOGADAC is well capitalized (XAF 137 billion at end September 2017) and has high levels of coverage. The effectiveness of the FOGADAC has not been tested since its creation in 2009. With the potential liquidation of a few banks across the region, FOGADAC requires support to ensure that it can effectively respond in case of crisis. The project will support the following activities to support the operationalization of the FOGADAC: (a) development of a backup staffing plan (including operational responsibilities, agreements with paying agents, reimbursement processes (that is software and manuals); (b) monitoring of systems implementation to ensure that banks report accurately financial information; (c) review of the FOGADAC's preventive functions to establish stricter preconditions for its intervention; (d) development of a communication and public awareness strategy to inform the customers about the deposit insurance arrangements; and (e) development under the COBAC's umbrella capacity-building programs on resolution of failing banks.

116. **The project could potentially finance preparatory studies to facilitate the complex migration to Basel II and III.** The COBAC Strategic Plan does not identify the migration to the news standards as a high priority in the short term, but the COBAC intends to implement gradually both Basel II and III frameworks on the medium term.

117. **Effective implementation of this component will allow COBAC to improve its banking supervision and crisis response capabilities.** A well-supervised banking sector will contribute to the prevention of financial crisis and will increase the trust of the population toward the system, which in turn can potentially increase financial inclusion. Furthermore, strong supervision of the sector will contribute to financial stability, reduce AML/CFT risks, and, more importantly, protect the deposits of the people.

Subcomponent 1.2.2. Microfinance Sector Regulation and Supervision

118. **The objective of this subcomponent is to strengthen MFI regulation and supervision by providing the COBAC with TA on enhanced supervisory techniques, including risk-based approaches.** The MFI sector plays a significant role in the economy of several CEMAC member countries, especially for Cameroon, Gabon, and the Republic of Congo, but the sector's performance is troubling. The sector comprises over 800 MFIs, mostly of cooperative nature, that serve almost 1.8 million members, (that is, about 7 percent of the CEMAC's adult population). According to a COBAC report, at the end of June 2016, "the prudential situation of the microfinance entities is fragile (…) their situation is characterized by the lack of compliance to several norms (…) several MFIs show a net negative or insufficient equity position, and they do not comply with applicable capital adequacy standards. In addition, several MFIs have a situation of lack of liquidity that is worrying." As of December 2017, four MFIs, with a combined balance sheet of XAF 32 billion (equivalent to about 3 percent of the sector's aggregated balance sheet), are being liquidated while four others with a total balance sheet of XAF 9 billion (less than 1 percent of the total) have been intervened by the authorities and operate under provisional administration.

119. **The project will support COBAC to enhance the supervision of the MFIs taking a risk-based approach.** With only 10 staff at end-2017 that are based in Libreville to cover the very large number of the MFIs that operate in the six countries, the COBAC faces a challenge to effectively supervise a vast and diverse sector. As an important step to address this issue and to consolidate the sector, the authorities have adopted a new regional regulation to mandate small MFIs to either join a network or exit the market in addition to pushing for mergers between the medium and largest ones. Complementing these steps, and to enforce the implementation, it will be important for the COBAC to increase the number of staff working on the supervision of the MFIs and to implement a risk-based approach that increases supervisory efforts on the larger and/or riskier entities while adjusting such efforts in the case of smaller, geographically limited entities, that can be overseen by their members. Such a risk-based (or tiered) approach needs to be managed using adequate IT tools that facilitate the processing of information provided by the financial entities or gathered by the supervisors as part of the different off-site and on-site supervisory activities. This will allow the supervisory authorities to identify any anomalies in their early stages. The enhanced supervision by the COBAC will leverage the activities that the local authorities of the CEMAC member countries carry out to register the new MFIs and to follow up and close unauthorized entities. It will also have to address existing concerns of the regulator that the MFI sector could be used to finance illicit activities, considering the increase in terrorist movements in the region.

120. **The subcomponent is related to MFI supervision and will finance the following TA activities:**

(a) The diagnostic of the MFI sectors in COBAC member countries will include a survey of a representative sample of the MFIs aiming to define a typology of the MFIs considering their performance and likely strategies for their integration into federations or consolidation through mergers. The information provided by such a survey will be a central element to better understand the tendencies in the sector and to adjust the actions to be undertaken by the regulator and supervisor as well as by the different governments to contribute to a sound consolidation of the sector.

(b) Building on the diagnostic of the MFI sectors, a risk-based supervisory scheme will be defined aiming at enhancing the stability of the MFIs and the sector as a whole while, at the same time, facilitating the integration/consolidation of the sector. The introduction of such a new approach will require an assessment of the current practices used to register, supervise, and resolve the MFIs, which will serve as a reference to define and carry out necessary training and capacity-building measures for COBAC and, also, for the local authorities of the individual countries involved in licensing the MFIs and for the MFIs themselves. As a product of this work, the COBAC will have revised operational procedures, manuals and instruments, trained staff, and the corresponding training manuals.

(c) Support to implement new IT solutions in supervision. The revision of manuals and procedures will also allow streamlining of supervision processes and to introduce early warning systems for the MFIs.

(d) Support to the update of the prudential regulations framework.

(e) TA for the review, translation, and/or dissemination of any new MFI-related risk-based regulations that may be required. TA to implement any joint approaches by local and regional authorities that may be determined by the authorities will also be provided.

(f) A feasibility study for a deposit guarantee scheme for the MFIs, including the main guidelines/parameters.

121. **The project will also support the strengthening of the capacities of the local MFIs.** Currently, many of the MFIs operating in the region do not have the resources to produce reliable financial data reflecting their performance and to report such information quickly to the COBAC. This poses serious problems for the COBAC, because the financial information filed by the MFIs are, in many instances, inaccurate and late. As a result, the information available to the COBAC often does not provide a clear picture of the financial situation of the supervised MFIs. Complementing the MFI supervisory activities, the project will provide the MFIs with instruments and capacity-building opportunities. A private sector association or firm operating across the region will be identified to deliver the TA required to

(a) Develop accounting/management and reporting software for the MFIs, including implementation support, and

(b) Provide capacity building on key issues (that is, loan administration, corporate governance, internal controls, and risk management).

122. **Effective implementation of this subcomponent will allow COBAC to improve its MFI supervision capabilities.** A well-regulated and well-supervised MFI sector will increase the trust of the population toward the system, which in turn can potentially increase financial inclusion. Furthermore, strong supervision of the sector will contribute to financial stability, reduce AML/CFT risks, and, more importantly, protect the deposits of the most vulnerable populations, who are the main users of the system.

Subcomponent 1.3. Implementation of IFRS Accounting and Auditing Standards by BEAC to Improve the Quality of Financial Information (IDA Financing US$ 1.5 million credit)

123. **The project will support BEAC with the migration to the IFRS process to improve the quality of information and transparency.** Currently, the BEAC prepares its financial statements in compliance with

local reporting standards. In the context of the safeguards mission of the IMF, it was recommended to the BEAC to migrate to internationally recognized reporting standards to improve the quality of financial information and transparency. The project will finance the following activities: (a) identification of a consulting firm to assist the BEAC with migration process to IFRS and (b) capacity building and certification process on new accounting and reporting standards of the BEAC staff. To finalize the transition to the new standard, the project will provide capacity building to the BEAC staff to ensure proper understanding of the new accounting rules and smooth implementation.

124. **The project will also support the modernization of the BEAC's internal audit function to allow the institution to be compliant with international good practices in the area of audit.** The internal audit function of the BEAC needs to improve its internal procedures to move into a risk-based approach. To effectively migrate to a risk-based approach, automation of procedures is required and a detailed map of all the risks of the institution. The project will support (a) recruitment of a consulting firm to design and implement the system; (b) purchase of the relevant software; and (c) capacity building for the staff of the internal audit function.

125. **Effective implementation of this component will improve the quality of financial information, transparency and risk management of BEAC.** The BEAC will prepare information in compliance with IFRS, which will in turn improve the quality of the information and transparency. The BEAC will also be in a position to better understand and control all its compliance and operational risks, which will in turn improve the governance of the institution.

Component 2: Strengthening the Capacity of BEAC and COBAC to Implement their Financial Inclusion Mandate (SDR 9.8 million, US$ 14 million equivalent)

Subcomponent 2.1. Payment Systems Infrastructure and Oversight (IDA Financing US$ 8 million credit)

126. **The objective of this component is to improve the payment systems infrastructure, regulatory framework and oversight.** To achieve this objective, the project will support the following activities: (a) improvement of the legal and regulatory framework relating to payment services (to ensure that conditions are in place for free competition, and encourage innovation by adopting flexible regulations proportionate to the risks incurred and protective of consumers); (b) development of a regional payment strategy with a focus on retail payments; important dimensions that will be addressed will include access to a transaction account and usage of electronic transactions (large volume recurrent payment streams will be a key component) and activities to increase acceptance of electronic payments (trade and fiscal administration incentives to merchants to accept electronic payments; development of the acceptance infrastructure (ATM and POS), with a focus on interoperability); (c) strengthening of the BEAC's oversight function by making it based on a functional approach covering all aspects of the regional payments system, the financial market infrastructures, and payment instruments and services (including the monitoring and handling of fraud and customers' complaints related to electronic payments); and (d) development of the government debt market, aiming at reducing overall cost of debt, providing better transparency and access to financial markets.

127. **The project will support the regional payment system infrastructure upgrade.** The CEMAC region has made notable efforts in introducing payment systems that support interbank and economic activity at a broader level. These systems which are operated by BEAC are: real time gross settlement system

(SYGMA) and automated clearing system (SYSTAC) that supports bulk payments at a country level. However, the regional payment systems are still in a critical stage of transition from deployment of infrastructure to widespread adoption and usage of electronic payment instruments and services. Hence the project will support the creation of an integrated cost-effective platform that would allow current systems enhancement and integration of SWIFT solutions. In addition, the project will finance the purchase of SCOPE software, a modern tool to track transactions in foreign currencies.

128. **The project will support an assessment of the existing legal and regulatory framework applicable to payment systems.** The existing legal and regulatory framework in the CEMAC region is not in line with international good practices. The existing structure is complex due to the existence cohabitation of regional regulatory frameworks of the BEAC and COBAC and country-specific regulations. This issue has resulted in increased uncertainty about applicability of regional and domestic laws. For instance, Cameroon is the only country that has implemented an e-commerce law. The BEAC and COBAC have not developed any regulation on e-commerce. At the same time, Gabon is developing a law for interoperability of payment systems that can be in conflict with interoperability regulations issued by the BEAC. E-money regulations require updates to reflect the latest developments of the market. The assessment will cover the existing payment systems regulations, and will provide recommendations to update the legal and regulatory gaps. The scope of recommendations will cover (a) role of the BEAC; (b) scope of payment systems and services; (c) finality and irrevocability in payments and securities settlement systems; and (d) issuance, oversight, and supervision of e-money; Internet banking; agent banking; and electronic funds transfer.

129. **The project will also support the development of a regional payment systems strategy with a focus on retail payments.** A regional payment systems strategy with particular focus on retail payment systems should be developed by BEAC. The retail payments strategy should be aligned with the Guidelines on Payment Aspects of Financial Inclusion. While addressing the main foundations, such as commitment, financial and ICT infrastructure, and legal and regulatory framework, the guidelines also address key catalytic pillars, such as accounts and payment products design, access points, financial literacy, and large-volume reoccurring payment streams. The strategy will focus on increasing access to and usage of payment services and will be guided by the PAFI framework which covers the following payment systems and services: (a) Large Value Payment Systems (RTGS); (b) financial cards and its usage on ATM, POS terminals, and Internet (including GIMAC regional card scheme); (c) automated clearing house, including credit transfer and direct debit; and (d) mobile money, issuing of e-money, and interoperability. A special focus will be given to increasing access points and acceptance of payment services at merchants and government, issuing prepaid cards, designing programs for large-volume reoccurring payments specially for government payments and collections, increasing access to mobile money, widening the services provided through mobile money, and integrating them with other financial services. The strategy will be implemented through interviews with regulators, market participants, including banks, mobile operators, switch operators, clearing houses, and agent networks.

130. **The project will support the development of the payment systems' oversight function.** The BEAC's oversight function needs strengthening. The oversight framework of payment systems has not been developed yet. Meanwhile, the assessment of systemically important payment systems is still performed based on the 10 core principles of SIPS, not based on Principles of Financial Market Infrastructure. While the BEAC developed a licensing process for mobile money operators, the off-site and on-site oversight processes have not been developed yet. Furthermore, the existence of multiple

regulators (BEAC, COBAC, and Telecommunications Regulatory Agency [*Agence de Regulation des Telecommunications*]) and lack of coordination mechanism for the oversight framework and respective scope of work creates uncertainties among market participants. The project will finance the following activities: (a) development of an oversight framework—the framework comprises objectives, roles of the BEAC and other regulators, oversight instruments, and scope of implementation for different systems and services; (b) organization of workshops and trainings for BEAC staff on implementing the self-assessment of their RTGS and CSD based on Principles of Financial Market Infrastructure; (c) provision of trainings and capacity-building events for on-site and off-site supervision of mobile money operators (banks or mobile operators) and their agents; and (d) support to the BEAC and COBAC with development of cooperation mechanisms for the oversight of payments systems and services.

131. **Finally, the project will finance an assessment of the government debt market.** The BEAC has started a project to develop a CSD system to manage CEMAC countries government debt. The project is expected to go live early next year (2018). While the CSD is a major component in Financial Markets Infrastructure, the optimum objective should be to develop the market itself. Having a CSD will allow the market to have the tool for development; however, the primary and secondary markets structure will require the development of a strategy aiming at providing more liquidity, lowering cost of managing governments debt, and enabling the BEAC to implement its monetary policy through the financial markets efficiently. The objective of the assessment is to diagnose the current market practices and provide reform recommendations. The scope of the assessment will cover (a) primary market structure, including primary dealers and issuing strategy; (b) secondary markets, including OTC, wholesale, and retail markets; (c) types of trades, including repo, tri-party repo, and securities lending; and (d) management of collaterals through collateral pool, including BEAC intraday, overnight, short- and medium-term credit facilities/loans, and guarantee funds. The assessment will go through some interviews with the BEAC, Ministries of Finance as issuers of government bonds, banks, investors, and others. The assessment will be conducted one year after going the operationalization of the new CSD. The output of this activity will be a list of recommendations related to market development. Workshops will also be organized with the BEAC and market participants to explain the recommended changes.

Subcomponent 2.2. Promotion of Stable and Sustainable Financial Inclusion (IDA Financing US$ 4 million credit)

132. **The overall objective of this subcomponent is to support the regional authorities under the aegis with the development of a regional financial inclusion strategy and to implement analytical tools to monitor progress.** Access to financial services in the CEMAC region is among the lowest in Sub-Saharan Africa. According to the World Bank Global Findex Survey (2014), only 14.6 percent of adults in the region have access to a transaction account, against a Sub-Saharan African regional average of 34 percent and an average of almost 20 percent in the WAEMU. In addition, based on available supply-side data, the CEMAC region and member states do not fare well in comparison with comparable economies. For example, in Cameroon and Chad there are only 1.95 and 0.99 commercial bank branches per 100,000 adults, respectively, versus 4.83 in Côte d'Ivoire and 4.61 in Senegal.[17]

133. **While the BEAC has undertaken major actions to promote access to financial services (SYGMA, SYSTAC, mobile money, and so on), the region still trails comparable economies.** Similarly, while some

[17] 2015 IMF FSA data.

national authorities have developed policies and strategies (microfinance, financial sector development, financial inclusion, and so on) neither coordination among national and regional authorities nor a prioritized action plan to implement key reforms enabling financial inclusion has been developed. In fact, such strategies not only remain unimplemented but they also contain actions that are under the purview of regional authorities.

134. **A contributing factor to the persistence of this issue is that neither the BEAC nor COBAC collect limited data on financial inclusion to monitor progress and identify gaps and they do not so systematically.** This lack of data not only prevents the authorities from identifying key issues in the market and developing a risk-based supervisory approach but it also limits the information that consumers can access about the financial services and products they use.

135. **To facilitate the expansion of access to financial services in the CEMAC region, the regional authorities under the aegis of the BEAC would like to develop a regional financial inclusion strategy and a corresponding framework to measure and monitor financial inclusion.** Such a framework would contribute to the prioritized collection of qualitative data to inform both market and prudential supervision and promote responsible financial access. Financial inclusion strategies provide a helpful platform for introducing new approaches and deploying existing resources toward expanding access and usage of financial services. They do so by employing evidence, prioritizing actions, and identifying resources to develop a comprehensive road map for financial inclusion that incorporates complementary thematic strategies, action plans, and activities.

136. **This component will support a broad set of activities connected to the overall project goal of increasing sustainable financial inclusion in the region.** The component will support the following key outcomes: (a) a CEMAC regional financial inclusion strategy launched along with a corresponding adequate governance mechanism for the preparation and implementation of the strategy; (b) implementation of selected activities to be identified in the strategy to encourage innovation and increase financial inclusion; and (c) operationalized framework for monitoring financial inclusion and adopted tracked indicators about financial products and services in the region.

Subcomponent 2.2.1. Regional Financial Inclusion Strategy and Data Collection

Indicator Development

137. **Analysis of supply-side data currently collected.** While at present, neither the BEAC nor the COBAC collect data systematically, they receive certain information and data from financial institutions, including information on the effective interest rate. Before identifying the indicators for data collection and the processes and procedures for the collection of such data, it is important to conduct an analysis of the data being collected and existing procedures. The project will finance such an activity, which will also provide the baseline data for the strategy. It will also finance, to the extent to which these data are available, collection of gender-disaggregated data.

138. **Analysis of demand-side data available.** To develop adequate policies, including the regional financial inclusion strategy, it is important to also analyze demand-side data on financial inclusion, which will also serve as the baseline for this strategy. As a new set of Global Findex Survey data will be available in 2018, this activity will consist of an analysis of the demand-side Global Findex Survey data.

139. **Development of a list of key supply-side data indicators for collection.** Following the analysis of the supply-side indicators as well as an analysis of international examples and guidance, this activity will consist of identifying relevant gaps and needs, to develop a set of indicators to monitor financial inclusion progress for supply-side data collection in the countries.

140. **Development of a list of key qualitative indicators to be collected.** While it is important to monitor and collect supply-side data in terms of access to financial services, it is also salient that both the BEAC and COBAC collect qualitative data both for publication and to inform its supervisory process. At present, the only qualitative data collected is the average effective interest rate for each type of credit product.[18] COBAC, with assistance from the World Bank Group, is also in the process of developing a requirement for financial institutions to establish a complaint handling unit which will be required to submit data on consumer complaints to the COBAC. Other types of qualitative indicators include data on the effective interest rate, dormant accounts, reports on fraud, and the number of NPLs. If analyzed properly, this collection of data sources can assist COBAC in the supervision of financial institutions by detecting market trends and issues, thus generating an early warning system. Such qualitative data can be analyzed further to understand consumer financial service needs. Furthermore, to foster competition and increase consumers' awareness, data on selected fees and charges can also be published.[19] This activity will help identify the key indicators to be collected for supervisory purposes as well as those that will be used for publication.

141. **Financing the development of appropriate software for the collection, analysis, and publication of the relevant data.** Once the identification of the key indicators is completed, the project will support the BEAC and COBAC by financing the design of the tool for the data collection and analysis (that is, software) as well as the development of such tools.

142. **TA related to the data collection and analysis.** While the data collection process will be mostly automated, it is necessary that BEAC and COBAC have the necessary technical capacity to analyze the collected data to appropriately identify market trends and issues as well as to inform their supervisory process. This activity will consist of TA from an expert international consultant on how to monitor the data collection and to exploit the relevant data.

143. **Demand-side survey to monitor financial inclusion progress.** The last activity of this component will consist of a demand-side survey, to be conducted halfway through the implementation of the regional financial inclusion strategy to identify progress as well as to monitor trends, patterns, and changes in consumers' financial lives and needs. The survey will specifically look at identifying data on why women have less access to financial services and products and what are their financial needs. The survey will specifically look at identifying data on why women have less access to financial services and products and what are their financial needs.

Regional Financial Inclusion Strategy

144. **Identification of key selected stakeholders and resources available for the preparation and implementation of the regional financial inclusion strategy.** This preliminary activity will identify the

[18] This is a rate which needs to be calculated according to a standardized formula established by law, which indicates the total cost of credit products and is inclusive of the nominal interest rate and all fees and charges.
[19] This has proven to foster competition, bringing down rates and lowering costs of basic retail product and services.

relevant stakeholders and their respective roles and functions in a proposed institutional framework for the governance and coordination of the regional financial inclusion strategy. It will also identify any legal instruments and resources necessary for its creation and implementation.

145. **Assistance to set up a governance structure for the development and implementation of the regional financial inclusion strategy.** Considering that financial inclusion is a cross-cutting objective, with different public and private sector stakeholders involved, it is important to ensure that all relevant institutions are involved and represented in both the preparation and the implementation of the strategy. All relevant national and regional stakeholders should be a part of this process. This activity will assist in setting up the most adequate structure, considering the landscape in the CEMAC subregion, as well as provide TA, by assisting in developing internal procedures for this structure and in particular to the Technical Secretariat, which will most likely be housed in the BEAC and will support the preparation and implementation of the strategy.

146. **Mapping of existing national policies and strategies as well as key activities relating to financial inclusion.** At present, some national governments and authorities have developed policies and strategies, as well as implemented activities, on areas that are relevant to financial inclusion. A comprehensive regional financial inclusion strategy will also identify, take stock, and incorporate the activities currently being conducted both at the national and sub regional level. Given that some strategies and policy documents already exist, this activity will also conduct a census of such policies and strategies, their implementation status, and relevant constraints.

147. **Comprehensive diagnostic for the development of the strategy.** To ensure that the strategy contains necessary and prioritized activities, a diagnostic will be necessary to identify key constraints to financial inclusion. While the data diagnostic will be conducted under the indicator activity, this activity will consist of an analysis of legal, regulatory, and market-faced constraints. The recommendations of the diagnostic will be validated by the relevant committees/working groups to be created under the coordination/governance structure.

148. **Development and finalization of the strategy document.** After having finalized the diagnostic, a strategy document will be prepared under this activity. This activity will also support the stakeholder consultation process to be undertaken for the finalization and approval of the strategy.

149. **Development of an M&E framework to monitor implementation of the strategy.** In parallel to the finalization of the strategy, an M&E framework and corresponding reporting structure will be developed to assist the Technical Secretariat in monitoring the implementation of the strategy.

150. **The effective implementation of this project will contribute to a more inclusive financial sector in the CEMAC region.** The overall outcome of these activities should be increased financial inclusion, which should result in broader access and usage of quality financial services. Furthermore, by increasing the statistical capabilities of both BEAC and COBAC, the regional institutions will be able to develop more informed action plans and policy decisions to address the financial inclusion challenges affecting the region.

Subcomponent 2.2.2. Innovative Pilots to Promote Uptake of Financial Services and Products

Innovation Pilots and Strategy Implementation

151. **While activities will need to be identified based on the regional strategy which will diagnose the market, identify gaps as well as priorities, the project is expected to support implementation of some activities, which will include the following:**

(a) **TA to implement selected activities to be identified in strategy to encourage innovation and increase financial inclusion.** The latter activity will consist of providing TA to implement selected legal and regulatory reforms (for example, by creating a regulatory sandbox for the piloting of innovative delivery channels, including agent banking) identified as key priorities in the strategy to promote innovation and enable greater financial access.

(b) **Financing of innovative pilots.** Financial technology can help in providing financial services at a lower cost and comply more easily with legal and regulatory requirements, as well as develop products and services which respond to users' financial needs. Following the creation of a favorable enabling environment as well as the strengthening of financial infrastructures, the project is expected to finance, on a small pilot basis, some activities in the form of matching grants. Specific selection criteria will be established based on the findings of the diagnostics as well as on the activities to be identified by the regional financial inclusion strategy; however, to be selected, financial services providers will need demonstrate that they are committed and sufficiently structured to develop and adopt innovative solutions as well as to share some part of the investment. One of the key selection criteria will be a demonstrated strong potential impact on financial inclusion. Particular attention will be given to those FinTech solutions aiming at increasing access to finance for women. A separate operations manual defining the key terms and conditions of the matching grant program will be required to launch this activitiy.

152. **Two key conditions must be met in order to launch the fund for innovation.** First, the regional financial inclusion strategy must be completed as this diagnostic will provide information on key gaps that can be potentially addressed through the fund for innovation. Second, a separate operations manual to regulate the terms and conditions for the effective operationalization of the fund.

Financial Consumer Protection

153. **The project will provide assistance to COBAC to develop and issue comprehensive financial consumer protection measures.** At present with the FIRST-funded TA, the COBAC is conducting a financial consumer protection diagnostic to identify current gaps in the regulatory framework as well issues with regard to industry practices. Such diagnostic is expected to result in the development of a high-level financial consumer protection framework, which will subsequently require implementation regulations. Assistance to develop such implementing regulations and supervise their application will be partially funded by the project and will include, depending on the needs, (a) the development of regulations on standardized disclosure for credit, savings, and payments products; (b) the development and consumer testing of standardized disclosure tools for credit and payment products (key facts statement for fixed-term credit products and transaction accounts); and (c) the development of detailed regulatory requirements on customer mobility and product suitability.

154. **Once the regulatory framework is in place, the project will support the COBAC in strengthening its supervisory capacity in the area of financial consumer protection supervision.** The project will provide support to COBAC to enhance its supervisory capacity and to monitor the implementation of the above-mentioned financial consumer protection requirements. In particular, the project will support COBAC by (a) assisting in the development of financial consumer protection supervision tools (for example, data collection tools and templates) and manuals; (b) developing a financial consumer protection supervisory strategy which will cover at least the following issues: institutional arrangements, supervisory cycle, supervisory priorities and approaches; and (c) providing capacity-building trainings on financial consumer protection supervision techniques.

155. **The effective implementation of this project will contribute to coordinate financial inclusion activities and enable a more inclusive financial sector in the CEMAC region.** The overall outcome of these activities should be better coordination and identification of key activities to be undertaken to promote financial inclusion as well as more innovation in the provision of financial services and products and stronger consumer protection, which should result in broader access and usage of quality financial services. Furthermore, by increasing the statistical capabilities of both the BEAC and COBAC, the regional institutions will be able to develop more informed action plans and policy decisions to address the financial inclusion challenges affecting the region

Subcomponent 2.3. Modernization of BEAC's Public Credit Registry (IDA Financing US$ 2 million credit)

Responsible agency: BEAC

156. **The objective of this subcomponent is to support reforms to modernize the PCR to improve the reliability and integration of comprehensive data published therein.** This subcomponent will develop tools that exploit as much as possible the information contained in PCR databases to measure banks' credit risk exposure and optimize the prudential regulation ensuring that provisioning and capital requirements are properly calibrated to cover expected and unexpected losses respectively. It will also permit validating banks' internal rating systems, performing stress tests, and informing macroprudential surveillance. In this respect, it is envisioned that the existence of a PCR will be a key factor to enhance the supervision and regulation of the financial system. The extent, accuracy, and availability of the information collected by the BEAC will determine the usefulness of the PCR as part of the Central Bank's toolkit to monitor the potential vulnerabilities not only on a microprudential level but also on a macroprudential one.

157. **After almost three decades of activity, the credit registry at BEAC is dysfunctional and limited in scope.** Indeed, despite its revision in 2009, the architecture of the credit registry in use, no longer corresponds to the technological evolution of IT platforms and modern information systems. This situation leads to many dysfunctions and limitations and distorts the quality of the financial information produced by the credit registry, mainly due to the following:

- **Low processing capacity.** The current application has limited or insufficient information processing capacity despite the increasing volume of data to be manipulated. This weakness is at the origin of the non-respect of the registry's threshold, particularly in Cameroon where this threshold was revised upward from XAF 10,000 to XAF 1 million, to avoid the frequent bugs.

- **Non-evolving nature of the application.** Indeed, it has been designed with non-evolving tools to such an extent that there is today an incompatibility with the information systems of some participating credit institutions.

- **Problems related to an unreliable identification of borrowers.** This problem is at the origin of many duplicates in the database due to homonyms.

- **Non-inclusion of the MFIs.** The current credit registry does not consider the MFIs despite their growing number in the CEMAC region, as well as the corresponding increase in the volume of credit.

- **Absence of a regional credit registry.** The current system is based on a decentralized architecture based on each national branch of the Central Bank. The databases are therefore national and not connected to each other

158. **The project will provide TA to BEAC, COBAC, and key stakeholders for modernization of the PCR.** Specifically, this will entail the following:

(a) A gap analysis of the existing PCRs in each CEMAC member country with recommendations on improving the existing registry;

(b) Support to the BEAC to define and adopt an appropriate strategy for the establishment of a modern centralized regional credit registry with increased data processing capacity covering all financial institutions and the MFIs in all the CEMAC member countries;

(c) Control and validation of the variety and level of data required from banks and financial institutions, including the MFIs;

(d) Development of tools that exploit, as much as possible, the information contained in the regional credit registry databases to measure banks', financial institutions', and the MFIs' credit risk exposure and optimize the prudential regulation, ensuring that provisioning and capital requirements are properly calibrated to cover expected and unexpected losses respectively;

(e) Strengthening of the capacity of BEAC and COBAC to exercise oversight over the credit reporting system; and

(f) High-level awareness raising/capacity-building workshops for the lender community and authorities in member countries and conducting a regional credit reporting conference with participation of international speakers.

159. **Effective implementation of these activities will improve banking sector regulation and supervision, especially with the availability of complete, accurate, and timely credit information.** The long-term impact of a PCR will be to optimize prudential regulation ensuring that provisioning and capital requirements are properly calibrated to cover expected and unexpected losses respectively, as well as

permitting the validation of banks' internal rating systems, performing stress tests, and informing macroprudential surveillance.

Component 3. Strengthening Capacity of GABAC to implement its Financial Integrity Mandate (SDR 2.7 million, US$4 million equivalent

160. **Through the support provided by the previous CEMAC project (Economic and Monetary Community of Central Africa Financial Institutions, P099833), the GABAC was able to launch its activities and develop internal procedures to become a regional task force against ML and FT for the region**. The GABAC began a process of close cooperation with the AML/CFT international standards settlers, the FATF, to become a recognized voice for CEMAC member states within the international community. As part of this process, the GABAC adopted procedures for transparent FM, launched its ME program, organized regular task force meetings, and prepared typology exercises on ML/FT trends in Central Africa, with a view to obtaining FATF associate membership status. The GABAC achieved full FATF membership status at the October 2017 FATF Plenary.

161. **Maintaining FATF associate membership status will require the GABAC to promote the implementation of the 2012 revised international standards in the CEMAC region.** The FATF revised its AML/CFT recommendations in 2012 to require governments, among others, to develop and implement risk-based AML/CFT strategies as the foundation of effective AML/CFT regimes. The FATF also adopted a new methodology in 2013 to assess the level of compliance of its members with international standards, which places the focus of FATF ME on the effectiveness of the AML/CFT frameworks, in addition to pure technical, legal, and operational compliance with the 40 FATF recommendations.

162. **GABAC Secretariat led efforts to revise the AML/CFT CEMAC Regulation in 2016 to allow the CEMAC to adhere to the revised FATF recommendations; it now needs to promote the effective implementation of the revised CEMAC regulation in the region.** As noted in the 2016 CEMAC FSA, the implementation of AML/CFT measures in the CEMAC region remains low. If some states have set up FIUs (Cameroon, Gabon, and Chad), others (the Republic of Congo, Equatorial Guinea, and the Central African Republic) lag behind. Aside from the banking sector, the AML/CFT preventive framework (customer identification, suspicious transaction reporting, and so on) is not implemented, which does not allow the region to effectively detect financial flows related to criminal activity, including terrorism. The law enforcement authorities and judiciary have yet to develop capacity to fully carry out their functions and develop financial investigation and prosecution to recover illicit criminal proceeds.

163. **Against this background, the overall objective of this component will be to support the GABAC to improve the implementation of AML/CFT in the region.** This will be achieved by ensuring that the GABAC has the capacity to monitor the implementation of the 2016 CEMAC regulation in member states through the launch of the new round of MEs. These MEs will be based on the 2013 ME FATF methodology and by endowing the GABAC with the ability to launch a TA program dedicated to its member states to strengthen compliance with the CEMAC regulations.

164. **Expected outcome of the component.** The GABAC will have revised and implemented its framework to monitor member states compliance with international standards as well as fostered the strengthening of domestic AML/CFT regimes in a coordinated and harmonized fashion by raising the level

of understanding of the region to ML/FT risks and by helping states develop and implement AML/CFT risk-based programs.

Subcomponent 3.1. Launch the 2nd Round of Mutual Evaluations of Member States' AML/CFT Regimes (IDA Financing US$ 2 million grant)

Responsible agency: GABAC

165. **The objective of this subcomponent is to help GABAC improve its capacity to monitor the efforts carried out by member states to comply with the revised FATF 2012 international standards through the MEs and follow-up process.** Carrying out MEs and following up with member states on progress achieved in implementing the recommendations of the ME is a core function of the GABAC, as an associate member of the FATF. The FATF recommendations and its assessment methodology have been revised in 2012 and 2013, respectively. Therefore, GABAC needs to launch a new round of MEs to support states in implementing the revised standards. The project will support the GABAC in assessing levels of compliance of member states' AML/CFT regimes against the revised international standards through the following methods:

(a) **Developing a pool of GABAC assessors through the implementation of three assessor training workshops in the CEMAC.** These training events will allow GABAC to expand the number of assessors trained under the 2013 FATF methodology, thus allowing the group to conduct MEs in its six CEMAC member states. These trainings will be organized in collaboration with the FATF and other international assessor bodies, such as the GIABA, the World Bank Group, and the IMF.

(b) **Supporting the implementation of GABAC's ME calendar.** This will be done through (i) the organization of six preassessment training events in the six CEMAC member countries to help the authorities of the countries being assessed prepare for their ME; (ii) conduct on-site visit of GABAC assessors in the six CEMAC member states to lead interviews with public and private sector AML/CFT stakeholders to collect relevant information and data on the implementation of AML/CFT measures, according to the FATF methodology; and (iii) support the elaboration, peer review, and discussion of AML/CFT ME reports at GABAC Technical Commission and plenary events for their final adoption. This activity will fund the participation of relevant GABAC assessors in post on-site visit work, including the organization of face-to-face meetings with the authorities of countries being assessed as needed and participation in peer review and plenary discussions.

(c) **Supporting GABAC in organizing its ME follow-up process.** This activity will aim at allowing AML/CFT stakeholders from CEMAC member states being subject to participate in plenary meetings where they will be asked to report on progress achieved in implementing the recommendations coming out of the ME reports.

166. **Effective implementation of this subcomponent is expected to result in increased understanding of the new AML/CFT international standards in the CEMAC region.** For each member state, it will lead to the preparation of (a) detailed diagnostics on the shortcomings of domestic AML/CFT regimes in relation to the standards and a determination of how effective they are in tackling financial

crime and (b) a detailed set of recommendations on how to improve the effectiveness of local AML/CFT systems.

Subcomponent 3.2. Implementation of Technical Assistance Activities for Member States (IDA Financing US$ 2 million grant)

Responsible agency: GABAC

167. **One of the core functions of GABAC is to provide TA to member states on the implementation of international standards to increase AML/CFT compliance regionally and within each member state.** This subcomponent aims at supporting the GABAC in its efforts to strengthen CEMAC member states' AML/CFT regimes through the implementation of a TA program that will improve the understanding of ML/FT risks in the region. Furthermore, the project will also support the implementation of activities aimed at helping CEMAC member countries mitigate the risks to which they are exposed. The revised international standards (that is, FATF Rec. 1) place emphasis on ensuring that domestic AML/CFT regimes are effective at helping countries reduce their risks of ML/FT, through the implementation of an AML/CFT risk-based approach. This approach has been adopted by CEMAC member states in the revision of the AML/CFT CEMAC regulations and states are now under obligation to carry out risk assessments of ML/FT, as well as to develop AML/CFT policies to mitigate these identified risks. In this perspective, Subcomponent 3.2 will fund activities that allow the GABAC to be able to support the implementation of the AML/CFT risk-based approach in the region through the following:

(a) **Typology exercises.** This involves carrying out regional research and studies on the techniques, trends, and modus operandi of ML/FT in the CEMAC region to inform and guide policy makers and operational AML/CFT agencies in the implementation of AML/CFT regimes and needed reforms. The GABAC has, in the past, carried out several ML/FT typologies that have contributed to enhancing knowledge in the region and worldwide on these phenomena. The project will support the GABAC, with the contribution of national FIUs and other relevant AML/CFT stakeholders, in continuing to prepare typology exercises and to disseminate results to AML/CFT actors in the public and private sectors. The project will support the launching of a typology exercise to better understand the ML/FT risks faced by the real estate sector in the CEMAC region, as well as a study on the ML risks related to corruption. Both these areas have been identified as high risk by the 2016 CEMAC FSA, and developing a better understanding at the regional level on the movements of illicit financial flows in these areas will allow member states to identify common mitigating measures to be applied at the regional level.

(b) **National risk assessment (NRA).** This includes carrying out national self-assessment of ML/FT risks and developing risk-based AML/CFT action plans to mitigate the risks identified. The project will support the GABAC in coordinating a TA program aimed at launching NRAs in each CEMAC member country, in line with the FATF Rec. 1. This program will be based on an NRA tool developed by the World Bank, that has been implemented in over 100 countries.

The NRA tool is delivered through three phases over six months to two years (dependent upon country capacity), as follows:

- **Phase I: Preparation.** Countries set up an NRA working group in charge of conducting the risk assessment, composed of the national authorities involved in AML/CFT such as FIUs, regulatory and supervisory agencies, law enforcement agencies, prosecution and judicial authorities, among others, and private sector entities such as financial and nonfinancial institutions, as well as designated nonfinancial businesses and persons that are subject to AML/CFT requirements.

- **Phase II: Assessment.** Countries organize, with the GABAC and the World Bank Group, an 'initial NRA workshop' to introduce the NRA tool and start the NRA process. This phase will lead to the preparation of a report by each country that will identify the key ML/FT risks in each country.

- **Phase III: Finalization.** A final workshop is organized in each country to review the NRA findings and to draft the risk mitigation action plan for the identified risks.

(c) **Awareness raising.** This consists of organizing training sessions/workshops to disseminate the revised CEMAC AML/CFT regulation and enhance the levels of compliance with AML/CFT requirements in sectors that are identified by domestic risk assessments as most vulnerable to ML/FT. These events will be led by the GABAC and may involve the participation of regional and international consultants as needed.

(d) **Training activities.** The project will support the organization of training workshops for domestic AML/CFT stakeholders to ensure that they have the capacity to carry out their functions. These capacity-building activities will target domestic national FIUs, law enforcement agencies, and the judiciary to improve their capacity to detect, investigate, prosecute, and judge ML/FT cases related to important proceed generating crimes in the region.

(e) **Consulting services.** This will support the preparation of memorandums of understanding between national FIUs and other AML/CFT national stakeholders and the COBAC and the BEAC to improve AML/CFT policy and operational coordination and cooperation at the regional level.

168. **Effective implementation of this component will allow GABAC to support member states with the implementation of AML/FT reform agendas.** As a result, the GABAC will have fulfilled its core mandate of coordination and driving of AML/CFT reform in member states by being able to deliver targeted TA to its member states. In addition, the CEMAC member states will have strengthened their AML/CFT regimes by better understanding their exposure to ML/FT risks, by implementing an AML/CFT risk-based strategy and better allocating their limited resources in high-risk sectors.

Component 4: Supporting selected reforms through results based financing (SDR 1.3 million, US$ 2 million equivalent)

169. **The project will finance the implementation of selected reforms through results based financing.** The implementation of selected reforms through DLIs encourages BEAC to implement key reforms that will respond to key financial stability and financial access shortcomings. The implementation of reforms through DLIs reinforces the overall positive impact of the project. The project's components respond to the 2015 CEMAC FSA and IMF's recommendations. The funds will be disbursed to BEAC who is responsible for the disbursement linked results (DLR).

170. **The individual DLIs and result-based financing are summarized in Annex 2 includes the annual disbursement targets and the expected impact of each DLI.** Each DLI has time-bound disbursement-linked targets, which, from a disbursement perspective, are independent of each other. Noncompliance with a DLI target in a period means that the disbursement of funds associated with that DLI target will be withheld until the target is met; yet, it does not affect disbursement against targets of other DLIs. The timelines for all DLRs are indicative, and all DLRs have to be achieved before the project closing date to be eligible for disbursement. The borrower can request disbursement against the achievement of the DLI at the end of each year after its achievement has been formally verified by the World Bank where necessary (See Annex 2).

171. **Eligible actions and activities will be tracked and monitored on an annual basis by the designated staff of PIU**. Disbursements of the amounts allocated to each DLI will be made annually to the responsible institutions conditional on their achievement of the relevant DLI targets. Annex 1 provides an overall summary of the five enabling DLIs with relevant DLI targets to be met, the responsible institution for implementation, the amounts allocated to each DLI target (column 'Amount'), and the DLRs (the last column).

Component 5. Project Implementation (SDR 2.1 million, US$ 3 million equivalent)

172. **The project will support the project implementation cost.** This component will finance the operational costs of the regional PIU, including TA, coordination, procurement, FM, communications, and M&E supervision.

ANNEX 2: DISBURSEMENT LINKED INDICATORS AND DISBURSEMENT LINKED RESULTS

Disbursement linked indicator	Responsible institution	Total amount for DLI in US$	DLR for year 1 (date of effectiveness July 2018)	DLR for year 2	DLR for year 3	DLR for year 4	DLR for year 5
Adoption of a new foreign exchange CEMAC framework	BEAC	US$ 1,000,000	-	Adoption of a new foreign exchange regulation (US$ 500,000)	-	Implementation of an IT solution that better tracks foreign exchange transactions (US$ 500,000)	-
Establishment of a private credit bureau in the CEMAC region	BEAC	US$ 1,000,000	-	Adoption of a CEMAC regulation on private credit bureau (US$ 500,000)	Launch the tender process to identify a private credit bureau service provider (US$ 250,000)	Identification of a private credit bureau operator (US$ 250,000)-	

ANNEX 3: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Banque des Etats de l'Afrique Centrale
Strengthening Financial Regional Institutions and Intermediation in the CEMAC Region

Project Institutional and Implementation Arrangements

173. **This new project will build on the well-performing implementation systems established by the previous CEMAC operation (Economic and Monetary Community of Central Africa Financial Institutions, P099833).**[20] It will be implemented by the PIU of the previous operation, formerly known as *Unité de Gestion des Reformes des Institutions Financières* (UGRIF), anchored within the BEAC. The PIU will be responsible for project coordination and implementation, with full fiduciary responsibility for all activities of the project. In addition to the project coordinator and procurement and FM specialists who are already in place, the PIU will be staffed with an M&E expert as well as a communication specialist to ensure better monitoring of project activities and to report regularly on the results achieved. A high-level Steering Committee will be established to provide strategic guidance to the project, to communicate and coordinate the effective implementation of the reforms across member countries and beneficiary organizations and to ensure the achievement of intended objectives. A Technical Monitoring Committee will also be created to provide technical guidance to the PIU and review key project documents. To make the work of the PIU more effective and to consider the geographical nature of the regional project, project officers will be hired to support the implementation in Libreville at the GABAC and COBAC. They will not hold fiduciary responsibilities. Their role will be to oversee implementation of activities and to provide direct communication channels between the PIU and the beneficiary CEMAC institutions, as well as between the Technical Monitoring Committees and the overall project Steering Committee.

174. **Institutional skills development.** The project will provide results-based capacity building to targeted CEMAC regional institutions (BEAC, COBAC, and GABAC) to reinforce their skills and capabilities during program implementation. The project will finance TA and equipment to the designated technical services to enable them to better carry out their functions.

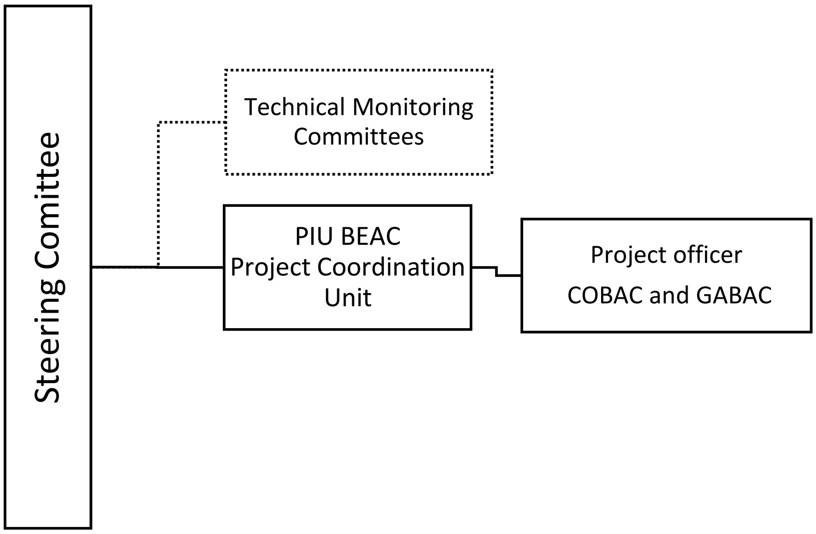
175. **Project management.** The project will also finance activities related to project management and coordination. It will be managed on a day-to-day basis by the PIU based in Yaoundé, in coordination with in situ project officers and technical focal points appointed by the targeted financial institutions. Specifically, the project will fund M&E systems development, communication to project beneficiaries, goods, hiring of staff, consultant services, workshops, training, and office equipment.

176. **The Project Operations Manual will articulate the coordination between the PIU, project officers, and technical focal points, as well as the frequency of meetings of the Technical Monitoring Committee and the Steering Committee.** The organization of regular meetings between the beneficiary institutions, PIU, and the Steering and Technical Monitoring Committees will be necessary to ensure effective information sharing among beneficiaries. The PIU is currently composed of a project coordinator, a procurement officer, and an accountant. It will be strengthened with the recruitment of an FM specialist, an M&E expert, and a communication expert to ensure better monitoring of project activities and to communicate regularly on the results achieved. If needed, one additional project officer will be recruited

[20] The Government's project performance was rated Satisfactory in the ICR completed in March 2017.

to work with the COBAC and GABAC in Libreville to facilitate the coordination with the PIU based in Yaoundé. The PIU, project officers, and technical focal points will receive trainings on World Bank Group fiduciary procedures.

Figure 2.1.Organizational Structure



Financial Management

177. **The PIU has been assessed by the World Bank Group in the area of FM and the overall FM residual risk is assessed as Substantial.** In line with the FM policies of the World Bank related to Investment Project Financing, an FM assessment was conducted at the BEAC to ensure that the proposed FM arrangement within the PIU remains adequate and complies with the minimum FM requirements.

Detailed FM Assessment and Arrangements

Table 2.1. Assessment Table and Mitigation Measures of Project Risks

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Risk After Mitigation Measures
Regional level Governance is widely acknowledged to be weak at regional level and may impact negatively the achievement of the development objectives of programs and projects implemented	H	Donor community actions are oriented toward public financial management reform agenda in the CEMAC region in support to the commitment of the respective governments to tackle the cross-cutting issue of governance in public resources management. In addition to investment support operations, some donors foresee using the budget support instrument that could help accelerate the pace of the public financial management and governance agenda.	H
Entity level The PIU has good experience in donor-financed operations. However, the management and coordination of the project that will benefit the three institutions might be a challenge and could jeopardize implementation.	S	The internal control system will be built to address the coordination issue among the involved entities through a well-elaborated and consistent implementation manual that will clearly define roles and responsibilities and provide clarity on the reporting lines to the Steering Committee. In addition, the appointment of focal points at each entity level will facilitate dialogue and coordination.	S
Project level The project will be more technical assistance oriented but will experience the DLI approach new to BEAC and will involve three different entities contributing to more complexity in implementation that may lead to activities not properly coordinated and implemented.	H	The internal control that is being built around the Procedures Manual (Operations Manual) will ensure that the project is implemented in accordance with the accepted procedures and segregation of duties and with roles and responsibilities of each stakeholder clearly defined. In addition, the two project officers at the COBAC and GABAC will ease coordination with the BEAC-PIU. As this is quite new to BEAC, the DLIs will be designed with no complexity and will be easy to implement and to achieve while covering relevant topics	S
Inherent Risk	H		S

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Risk After Mitigation Measures
Control Risk			
Budgeting Elaboration of a credible consolidated budget in line with the Procurement Plan and the implementation plan of each involved entity (BEAC, COBAC, and GABAC) may be an issue as the project is likely to experience delay in the consolidation process. As such, delays may occur in the budget preparation and deviations may be experienced in budget execution of some components.	**S**	The standardized FM Manual will be customized to provide a clear time line and responsibilities for budget preparation, consolidation, and monitoring. The management team involved will be clearly briefed/trained on the budget execution requirements and ensure ownership for appropriate implementation.	**S**
Accounting The FM officer left the implementing unit some time ago during the previous project implementation period and was not replaced, placing the accounting at risk of having incompatible tasks with one person, improper management and use of the project funds, and delay in record keeping	**S**	A new FM officer, with qualifications acceptable to the World Bank, will be recruited to take overall responsibility of FM activities and ensure that the associated supervision tasks are fulfilled.	**S**
Internal Controls The internal control is being set up and formalized in the Procedures Manual. However, the project might lack appropriate oversight over the internal control effectiveness as the internal audit unit at the BEAC did not include the previous project activities under its review.	**S**	The update of Operations Manual is being finalized and the internal audit unit (CGBC) of the BEAC will be sensitized to include the project activities in its audit plan.	**S**
Funds Flow As there is no dedicated account for the project yet, there is a risk that the project funds will be diverted and used for non-project eligible purposes. DLI may not be achieved as BEAC may lack sufficient funds to pre-finance associated activities	**S**	One Designated Account (DA) will be opened at the BEAC and managed by the PIU. The signature arrangement will be agreed upon and described in the Procedures Manual. An option to disburse an advance to the DLI will be made available to PIU through the disbursement letter	**M**

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Risk After Mitigation Measures
Financial Reporting Delays in the submission of the agreed consolidated interim financial reports (IFRs) and annual project financial statements as the reporting scheme is not yet set up and operationalized	S	The PIU has good experience of World Bank reporting requirement. The World Bank will ensure, through the accounting software, that recording of financial information as well as production of quarterly and annual financial statements are done on time and are of good quality. The reporting scheme will be clearly defined in the Procedures Manual.	S
Auditing Despite the BEAC having an external auditor, the project's financial statements and internal control arrangements might not be audited based on the ToR acceptable to the World Bank.	S	The BEAC's external audit scope will be expanded to include the project activities based on ToR acceptable to the World Bank.	S
Control Risk	S	—	S
Overall FM risk	S	—	S

Note: H = High; L = Low; M = Moderate; S = Substantial.

Table 2.2. FM Action Plan

Action to be Taken	Time Frame	Responsible Body
1. Recruit an FM officer based on ToRs acceptable to the World Bank	Not later than two months after effectiveness	PIU
2. Finalize the revision of the Procedures Manual	Not later than two months after effectiveness	PIU
3. Customize the BEAC accounting software to reflect the project specifics as part of the Project Implementation Manual	Not later than two months after effectiveness	PIU
4. Prepare an internal audit plan that includes the project activities and procedures	Not later than two months after effectiveness	PIU/DGCG
5. Expand the scope of the external audit based on ToR acceptable to the World Bank	Within four months of effectiveness	BEAC

Financial Management and Disbursement Arrangements

Financial Management Arrangements

178. **Arrangements.** The project's FM arrangement will rely on FM arrangements established by the BEAC to manage donor-funded projects under the responsibility of the PIU.

179. **Staffing**. The PIU will be responsible for the day-to-day implementation and will be staffed with a seasoned FM team comprising an FM officer and an accountant.

180. **Budgeting.** The overall responsibility for preparing an annual work plan and related budget will lie with the PIU. The different steps of budget elaboration and management (preparation, revision,

adoption, and execution) will be detailed in the Project Operations Manual. The annual work plan and budget will be prepared yearly and submitted to the World Bank early enough to have a 'no-objection' issued before the end of December each year (or one month after the effective date for the first year of the project). A budget execution report will be included in the reporting scheme to enable the monitoring of the project implementation.

181. **Accounting policies and procedures.** The PIU, through the FM team, will have the overall responsibility for maintaining the accounts of the project activities and ensuring that the annual financial statements are produced on time and in accordance with the OHADA accounting principles.[21] The BEAC's integrated accounting system, developed under ORACLE, will be installed and customized to fit the project accounting needs. Therefore, it will be used to record the project's transactions and produce the required periodic reports not later than two months after the effectiveness date.

182. **Internal control and internal auditing.** The administrative, financial, and accounting procedures are part of the Project Operations Manual. The manual will include a clear description of the initiation and approval processes with respect to segregation of duties. The PCUs will make use of the computerized accounting system to capture all project-related transactions. The FM officer will be responsible for maintaining all necessary controls to ensure (a) that the project funds are used only for the intended purposes efficiently and economically; (b) the preparation of accurate, reliable, and timely periodic consolidated financial reports; and (c) that the project's assets are adequately safeguarded. These will be reinforced with the BEAC's internal audit unit that will include the project activities in its audit plan and scope. To sustain the capacity-building initiatives of the project team, the World Bank LOA and FM units will provide adequate training in disbursement and FM procedures to the project's FM team. All of these measures aim at further enhancing the internal control system.

183. **Financial reporting and monitoring.** Semiannual financial report (IFRs) to be generated from the computerized FM system will be presented by the PIU in accordance with the format agreed with the World Bank. The IFRs will be prepared and submitted to the World Bank within 45 days of the end of each calendar semester. The content of the IFR will normally include (a) sources and uses of funds by the classifications of project expenditures (detailed by components and activities), (b) a comparison of budgeted and actual project expenditures (commitment and disbursement) to date and for the quarter, (c) a statement of the use of funds by component or activity, (d) DA activity, and (e) a physical progress report on the implementation of the project. At the end of each fiscal year, the project will prepare annual financial statements in line of the OHADA accounting principles.

184. **External auditing**. The annual financial statements prepared by the PIU and the internal control system will be subject to an annual audit by a reputable and independent auditing firm based on ToRs that are satisfactory to IDA. The scope of the audit that is likely to be conducted by the external auditor of the BEAC will be tailored to the project's specific risks in accordance with World Bank requirements and will be agreed upon with the BEAC. In particular, the independent auditor will audit the use of all funds flowing from the DAs to the ultimate beneficiaries. The project will comply with the World Bank's access to information and disclosure policies by making all disclosable audit reports (opinion report only) publicly available promptly after receiving them. The BEAC external auditor's ToRs will be updated to consider the project activities and the World Bank's requirements within four months of effectiveness. A

[21] The accounting principles set out by *L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires*—OHADA.

single audit opinion, in compliance with International Standards on Auditing, will be issued and will cover all project receipts, payments, and accounts. The audited financial statements, along with the auditor's report and Management Letter (incorporating management's comments) covering any identified internal control and accounting system inadequacies, will be submitted to IDA within six months of the end of each financial year.

185. **Funds flow and disbursement arrangements.** Funds flow will rely on the BEAC internal arrangement. Funds will flow from the IDA account to one DA denominated in CFA francs and opened in the BEAC in Cameroon. The DA will be managed by the PIU according to the disbursement procedures described in the administrative, accounting, and financial Procedures Manual as part of section of the Procedures Manual and the Disbursement Letter.

186. ***Disbursements.*** Upon effectiveness, this operation will follow transaction-based disbursement using statements of expenditures (SOE) as basis for expenditures documentation. The DA would receive an initial deposit that may be equivalent to four months expenditures forecast and will be replenished regularly through monthly withdrawal applications. Direct payment, reimbursement, and special commitment methods will be available to the project and might apply as appropriate. The minimum value of the direct payments, reimbursements, and special commitments will be 20 percent of the DA ceiling.

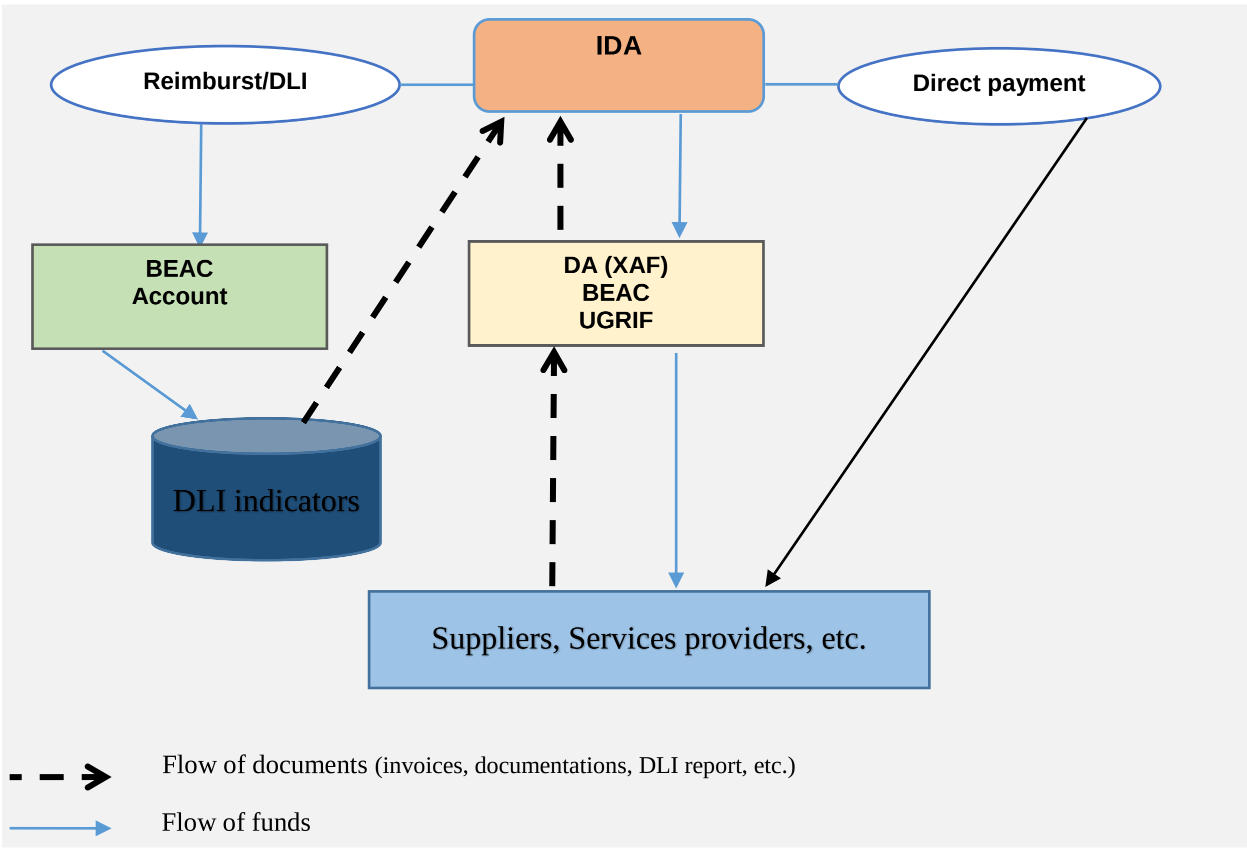
187. **Eligible expenditures Program (EEP).** Eligible expenditures will include any procurable and non-procurable items that BEAC will submit in justification of the achievement of the DLI for at least an amount equal to the amount allocated to the DLI. Procurable items will include but not limited to contract consulting services (including but not limited to legal, financial and technical experts), non-consulting services (including but not limited to interpretation services, catering, equipment maintenance) and purchase of services and goods (including but not limited to purchase of hardware and software) related to the achievement of the DLI. The EEP also includes non-procurable items (including but not limited to salaries, wages, overtime, travel) related to the achievement of the DLI. Bank procurement procedures will apply to those expenditures that are expected to be financed by BEAC. The IPF procurement procedures will fully apply to the project specifically to the procurable items. Funds will be disbursed against the items set out above (procurable and non-procurable) identified as EEPs which have been agreed to be financed under BEAC proceeds following Bank guidelines (including procurements as needed). Withdrawals up to an aggregate amount not to exceed SDR 200,000 may be made for payments made prior to the date of the financial agreement but on or after twelve (12) months for EEPs.

188. **Verification protocol.** Achievement of DLIs will be verified by an independent party. The external auditor of the project during the audit process will verify the achievement of the DLI and will assess the eligibility of the procurable and non-procurable expenses under the EEP program.

Indicator	Verification protocol	EEP	Responsible	Periodicity
DLI 1 Adoption of a new foreign exchange CEMAC framework (up to US$ 1,000,000)				
DLR 1.1: Adoption of a new foreign exchange	Regional Law is adopted by the council of	Procurable and non-procurable	External Auditor	Annual

Regional Law (Reglement) (up to US$ 500,000)	ministers of BEAC and is published in the official gazette. Copies of the official gazette should be presented to allow verification of the achievement of the DLR	items as defined in paragraph 180.		
DLR 1.2: Implementation of an IT solution that will allow to better track foreign exchange transactions (up to US$ 500,000)	Software fully implemented. BEAC to provide copies of the reports produced by the software and provide a live demonstration of the operations of the IT solution.	Including but Procurable and non-procurable items as defined in paragraph 180.	External Auditor	Annual
DLI 2: Establishment of a private credit bureau in the CEMAC region (up to US$ 1,000,000)				
DLR2.1: Adoption of a CEMAC Regional Law (Reglement) on private credit bureau (up to US$ 500,000)	Regional Law is adopted by the council of ministers of BEAC and is published in the official gazette. Copies of the official gazette should be presented to allow verification of the achievement of the DLR	Procurable and non-procurable items as defined in paragraph 180.	External Auditor	Annual
DLR 2.2: Launch the tender process to identify a private credit bureau service provider (up to US$ 250,000)	Proof that the tender process was launched. Copies of the publication of the tender process ("appel d'offre") in major newspaper and other systems (internet website)	Procurable and non-procurable items as defined in paragraph 180.	External Auditor	Annual
DLR2.3: Selection of a private credit bureau operator (up to US$ 250,000)	Copy of the minutes of the selection process ("proces verbal") showing that one private credit bureau provider has been selected.	Procurable and non-procurable items as defined in paragraph 180.	External Auditor	Annual

Figure 2.2. Disbursement Channel



189. **Implementation support plan (ISP) for FM.** FM implementation support intensity and frequency will be in line with the risk-based approach and will involve a collaborative approach. A first implementation support mission (ISM) will be performed six months after project effectiveness. Afterward, the missions will be scheduled by using the risk-based approach model and will include the following diligences:

(a) Monitoring the FM arrangements during the supervision process at intervals determined by the risk rating assigned to the overall FM assessment at entry and subsequently during implementation (Implementation Status and Results Report).

(b) Integrated fiduciary review on key contracts.

(c) Review of the IFRs.

(d) Review of the audit reports and Management Letters from the external auditors and follow-up on material accountability issues by engaging with the task team leader, client, and/or auditors. The quality of the audit (internal and external) is also to be monitored closely to ensure that it covers all relevant aspects and provides enough confidence on the appropriate use of funds by recipients.

(e) Physical supervision on the field.

(f) Assistance to build or maintain appropriate FM capacity and efficient internal control system.

190. **Conclusions of the FM assessment.** The overall FM residual risk at preparation is considered Substantial. The proposed FM arrangements for this project are considered adequate and meet the World Bank's minimum fiduciary requirements. The risk rating will be updated during the first supervision mission.

Procurement

191. **Guidelines.** Procurement for the proposed project will be carried out in accordance with the requirements set forth or referred to in the 'Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing: Goods, Works Non-Consulting, and Consulting Services,' dated July 1, 2016, revised in November 2017 and the provisions of the Procurement Plan.

192. **Fraud, coercion, and corruption.** The project's procurement activities will be carried out in accordance with the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants,' dated October 15, 2006 and updated in January 2011.

193. **Procurement documents.** For international competitive procurement for goods, non-consulting services, and consulting services, the borrower shall use the World Bank's Standard Procurement Documents with minimum changes, acceptable to the World Bank, as necessary to address any project specific conditions.

194. **Procurement information and documentation - filing and database**. Procurement information will be recorded and reported as follows:

- Complete procurement documentation for each contract, including bidding documents, advertisements, bids received, bid evaluations, letters of acceptance, contract agreements, securities, related correspondence, and so on, will be maintained in order at the level of the respective ministries, readily available for audit.

- Contract award information will be promptly recorded and contract rosters, as agreed, will be maintained.

- Comprehensive quarterly reports indicating (a) revised cost estimates, where applicable, for each contract; (b) status of ongoing procurement, including a comparison of originally planned and actual dates of the procurement actions, preparation of bidding documents, advertising, bidding, evaluation, contract award, and completion time for each contract; and

(c) updated Procurement Plans, including revised dates, where applicable, for all procurement actions.

195. **Advertising procedure**

- General Procurement Notice, Specific Procurement Notices, Requests for Expression of Interest, and results of the evaluation and contracts award should be published in accordance with advertising provisions in the Procurement Regulations.

- For request for bids and request for proposals that involve international consultants, the contract awards shall be published on the United Nations Development Business website in line with the provisions of the Procurement Regulations. For goods, the information to publish shall specify (a) the name of each bidder who submitted a bid, (b) bid prices as read out at bid opening, (c) the name and evaluated prices of each bid that was evaluated, (d) the names of bidders whose bids were rejected and the reasons for their rejection, and (e) the name of the winning bidder, and the price it offered, as well as the duration and summary scope of the contract awarded. For consultants, the following information must be published: (a) names of all consultants who submitted proposals; (b) technical points assigned to each consultant; (c) evaluated prices of each consultant; (d) final point ranking of the consultants; and (e) the name of the winning consultant and the price, duration, and summary scope of the contract. The same information will be sent to all consultants who submitted proposals. For other contracts, the information should be published in the national/regional gazette periodically (at least, quarterly) and in the format of a summarized table covering the previous period with the following information: (a) the name of the consultant to whom the contract was awarded, (b) the price, (c) duration, and (d) scope of the contract.

196. **Training, workshops, and conferences.** The training (including training material and support), workshops, and conference attendance, will be carried out based on an approved annual training and workshop/conference plan. A detailed plan providing the nature of training/workshop, number of trainees/participants, duration, staff months, timing, and estimated cost will be submitted to IDA for review and approval before initiating the process. The appropriate methods of selection will be derived from the detailed schedule. After the training, the beneficiaries will be requested to submit a brief report indicating what skills have been acquired and how these skills will contribute to enhance their performance and contribute to the attainment of the PDO.

197. **Operational costs**. Operational costs financed by the project are incremental expenses, including office supplies; vehicles operation and maintenance; maintenance of equipment; communication costs; supervision costs (that is, transport, accommodation, and per diem); and salaries of locally contracted staff. They will be procured using the procurement procedures specified in the project’s manual of administrative, financial and accounting procedures.

Assessment of the Agency's Capacity to Implement Procurement

198. **The procurement activities for the project will be executed by the existing PIU (formerly known as *Unité de Gestion des Reformes des Institutions Financières,* UGRIF), anchored within the BEAC.** The PIU will carry out the following activities: (a) managing the overall procurement activities and ensuring compliance with the procurement process described in the relevant manuals; (b) ensuring compliance of bidding documents, draft Requests for Proposals, evaluation reports, and contracts with World Bank procedures; (c) preparing and updating the Procurement Plan in relation with the beneficiaries; (d) monitoring the implementation of procurement activities; (e) developing procurement reports; and (f) seeking and obtaining approval of internal designated national entities and then on IDA on procurement documents as required.

199. **The beneficiary agencies will participate in the process of all procurement activities and will notably support the following activities:** (a) preparation of ToRs and the bidding documents, (b) preparation of evaluation reports and contracts related with World Bank procedures, and (c) participation in procurement commission activities and all related meetings.

200. **An assessment of the PIU to implement procurement activities was carried out during the project preparation cycle and concluded that the PIU has the capacity to carry out procurement according to World Bank Group procedures.** The assessment reviewed the organizational structure for the implementation of the project, the procurement capacities of the PIU, and the interaction between the different agencies involved in the project. The assessment revealed that (a) the agencies have the technical expertise to prepare the technical documents (ToRs, bidding documents, technical specification), which may be reinforced for specific activities by consultants to be recruited; (b) the procurement capacity, especially in IDA financing, is acceptable at the level of the PIU, notably the PIU has recently satisfactorily implemented a World Bank-financed project, which closed in 2016, and the former coordinator and procurement specialist are still in place; and (c) the procurement filing needs improvement.

201. **The assessment identified potential risks and proposed mitigation measures.** The key risks identified for procurement under the project are the following:

(a) Staff involved in the project may not have sufficient knowledge of the NPF and/or there may be a risk of confusion with the former guidelines;

(b) Inadequate communication and interaction between the beneficiaries and the PIU may lead to delays in procurement processes and poor cost estimations.

(c) Internal administrative procedures may increase delays in the procurement processes and affect project implementation.

(d) Poor filing may lead to loss of documents.

202. **The overall procurement risk for the project is rated Substantial.** The residual risk will be Moderate after adopting the agreed action plan summarized in table 2.3.

Table 2.3. Action Plan Mitigation Measures

Risk	Action	Responsibility	Date
1. Staff involved in the project who may not have sufficient knowledge on NPF and/or risk of confusion with the former guidelines	Organize workshop sessions on NPF to train all staff involved in the procurement of the project.	BEAC/PIU	Two months after effectiveness
	Continuous hands-on trainings on NPF for identified key staff	BEAC/PIU/World Bank	During the life of the project
2. Inadequate communication and interaction between the beneficiaries and the PCU, which may lead to delays in procurement processes and poor estimation of the costs	Update the project manual to consider this project and clarify the role of each team member involved in the procurement process of the project and the maximum delay for each procurement stage, specifically with regard to the review, approval system, and signature of contracts.	BEAC/PIU	Two months after effectiveness
3. Internal administrative procedures may increase delays in the procurement processes and affect project implementation	Exercise quality control on all aspects of the procurement process, including developing ToRs, technical specifications, bidding documents, proposals, request of quotations, evaluation, and award.	BEAC/PIU	During the life of the project
	Monitor, on regular basis, the Procurement Plan implementation and set up a close follow-up in relations with beneficiaries to ensure appropriate actions are taken on time.	BEAC/PIU	During the life of the project
4. Poor filing, which can lead to loss of documents	Improve the filing system at the PIU level to ensure compliance with World Bank procurement filing manual.	PIU/Procurement specialist	During the life of the project

203. **Frequency of procurement reviews and supervision.** The World Bank's prior and post reviews will be carried out based on thresholds indicated in table 2.4. IDA will conduct six-monthly supervision missions and annual post-procurement reviews. The standard post-procurement reviews by World Bank staff should cover at least 15 percent of contracts subject to post review. Post reviews consist of reviewing technical, financial, and procurement reports on project procurement actions by World Bank staff or consultants selected and hired by the World Bank. Project supervision missions shall include a World Bank procurement specialist or a specialized consultant. IDA may also conduct an independent procurement review at any time until two years after the closing date of the project.

204. **Procurement prior review.** The procurement risk is rated Substantial. Table 2.4 summarizes the procurement prior review for Substantial risk. These prior review thresholds can evolve according to the variation of procurement risk during the life of the project.

Table 2.4. Procurement Prior Review Thresholds (US$, millions)

Type of Procurement	Thresholds
Goods and information technology and non-consulting services	2.0
Consulting firms	1.0
Individual consultants	0.3

205. **PPSD and Procurement Plan**

a. The different approaches, the selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the recipient and the World Bank in the Procurement Plan.

b. A PPSD and a derived Procurement Plan for the first 18 months of program implementation have been prepared during appraisal and the final versions were discussed and approved during negotiations. During implementation, the Procurement Plan will be updated as required—at least annually—to reflect the actual program implementation needs and improvements in institutional capacity.

c. As summary of PPSD, the major procurement details are in the table below:

Activity	Category	Estimated cost (US$)	Market approaches Selection method	Bank Review	Comments
Diagnostic study on CEMAC statistical system	Consultants	280,000	Open-International/ Quality and Cost based Selection	Post	
Technical assistance to develop operational manuals based on risks	Consultants	280,000	Open-International/Consultant Qualification based selection	Post	
Support to operationalize FOGADAC	Consultant	187,000	Open-National/Consultant Qualification based selection	Post	
Monitor the implementation of banking risks project	Consultant	531,000	Open-International/Quality and Cost based Selection	Post	
Support to BEAC in automatizing permanent control and internal audit	Consultant	471,000	Open-International/Quality and Cost based Selection	Post	
Technical design on managing titles	Consultant	374,000	Open-International/Quality and Cost based Selection	Post	
Setting a general system LCB-FT	Consultant	280,000	Open-International/Consultant	Post	

			Qualification based selection		
Support to carry out various tasks « exercices de typologies pour corruption, immobiliers, métaux précieux, crimes environnementaux »	Consultant	300,000	Open-International/Quality and Cost based Selection	Post	
Support to develop a new referential accounting system based on IFRS norm	Consultant	935,000	Open-International/Quality and Cost based Selection	Post	
Project Audit	Consultant	157,0000	Direct Selection	Post	With BEAC Auditor
Support to GABAC to carry out national assessments based on risk	Consultant	280,000	Limited/Individual consultant	Post	
Supply of new IT licenses for BDEMF	Goods	748,000	Direct Selection	Post	Continuity
Supply Materials and accessories for existing databases	Goods	374,000	Direct Selection	Post	Continuity
Providing IT solutions for SESAME migration in STECTRA and developing SYSCO EMF	Goods	654,000	Limited International/Request for Bids	Post	
Supply and installation of New application on banking risks	Goods	1185,000	Open-International/Request for Bids	Post	
Providing IT solution for automatizing permanent control and internal audit	Goods	893,000	Open-International/Request for Bids	Post	
IT solution on monetary transactions management "Automatisation de la gestion des opérations du marché monétaire »	Goods	1495,000	Open-International/Request for Bids	Post	
Providing IT solutions on	Goods	934,000	Open-International/Request for	Post	

managing titles			Bids		
Providing IT solutions on optimizing SYSTAC	Goods	935,000	Limited International/Request for Bids	Post	
Installation of Monitoring and controlling system for SCOPE and SWIFT	Goods	697.000	Direct Selection	Post	Unique provider
Supply and installation of application to monitor change regulations	Goods	553,000	Open-National/Request for Bids	Post	
Supply of IT required equipment for SYSTAC	Goods	280,000	Open -National/Request for quotations	Post	
Supply of IT required equipment for SCOPE and SWIFT	Goods	131,000	Limited-National/Request for quotations		
Supply of IT equipment for Project Unit	Goods	206,000	Open -National/Request for quotations	Post	
Supply of Financial management software	Goods	187,000	Limited-National/Request for quotations	Post	

- **As BEAC is a regional body, "National "refers to BEAC coverage countries.**

Environmental and Social (including safeguards)

206. Not applicable.

Monitoring and Evaluation

207. **The PIU will be in charge of monitoring both the PDO and intermediate indicators.** The PIU will hire an M&E expert to set up the methodologies, guidelines, and tools to systematically produce performance indicators to monitor progress. The three beneficiary institutions will provide the relevant data to the UGRIF. The PIU will then provide updates twice a year to the World Bank Group. The performance indicators are realistic and simple to monitor.

Role of Partners (if applicable)

Table 2.5. Mapping of Donor Interventions and Mitigation/Coordination Measures

Institution/Donor	Area of Intervention	Duplication Risk - Mitigation Measures
AfDB	BEAC, COBAC, BDEAC, GABAC, COSUMAF, and CEMAC Commission	**Moderate**. The AfDB is in the process of putting together a financial sector operation. To mitigate the risk, the World Bank Group has conducted regular conference calls with the AfDB.
IMF (including AFRITAC)	BEAC and COBAC	**Low**. The IMF has multiple programs aimed at addressing financial stability issues in the CEMAC region. The World Bank Group has coordinated actively with the different IMF teams to ensure that interventions are coordinated and complementary.
World Bank Group	BEAC and COBAC	**Low**. The World Bank Group Treasury Department, through the Residential Access Modification Program, is negotiating a TA program to strengthen the capacity of the trading room of the BEAC. The CEMAC operation will not have components in this specific area. Furthermore, the World Bank is implementing a FIRST project on supervision of the MFIs in the CEMAC region. The World Bank Group coordinated internally to ensure that the current operation complements the work conducted by FIRST. Finally, important coordination efforts have been carried out with the different task teams involved in statistical support across the CEMAC region to avoid duplication of the efforts (see annex 6).

ANNEX 4: IMPLEMENTATION SUPPORT PLAN

COUNTRY : BANQUE DES ETATS DE L'AFRIQUE CENTRALE
Strengthening Financial Regional Institutions and Intermediation in the CEMAC Region

Strategy and Approach for Implementation Support

208. The implementation support plan (ISP) puts more attention on the actions required to facilitate better risk management, better results and increased institutional development while ensuring compliance with project's Legal Agreements to meet World Bank's fiduciary obligations.

209. The TTL and specialists responsible for each component will be based at World Bank Group headquarters. Initially (at least until the midterm review), they will undertake supervision missions two or three times a year. The frequency of missions thereafter will be determined considering the development of the project.

210. Overall project oversight will be ensured by frequent supervision missions and coordination with the PIU and beneficiary regional organizations. After the midterm review, and assuming that all project activities are on track as per the agreed targets, supervision will decrease to semiannual missions. Technical missions by technical experts can be carried out more frequently based on the needs of the client counterparts. Supervision of fiduciary aspects of the project will be carried out semiannually. Regular supervision by the team task leader and World Bank experts will focus on these areas:

a. **Technical**: The implementation support team for the supervision of the project will be composed of World Bank experts and consultants who will review and oversee the implementation of the components. They will also ensure that the implemented activities are aligned with the PDO of the project and agreed annual work plans. The project experts will also adjust the design and the procurement plan as required and will review the progress towards the achievement of the targets included in the M&E framework.

b. **Procurement:** Implementation support will include (i) using the PIU of the previous CEMAC operation, (ii) improving PIU's proficiency and efficiency in contract management in line with World Bank Procurement Guidelines by providing hands-on coaching as needed through periodic supervision missions, (iii) reviewing procurement documents and providing timely feedback to the PIU, (iv) providing detailed guidance on the World Bank's Procurement Guidelines to the PIU, and (v) monitoring procurement progress against the detailed Procurement Plan.

c. **Financial management:** Implementation support will include (i) using the existing PCUs in the MOE, MOF, or MOP for FM support; (ii) ensuring PCUs capacity to manage flow of funds and accounting procedures in line with World Bank Financial Management Guidelines by providing hands-on coaching as needed to the PCUs through periodic supervision missions; (iii) reviewing the FMS of the chosen implementing agencies, including but not limited to, accounting, reporting, and internal controls; and (iv) reviewing submitted reports and providing timely feedback to the PCUs.

d. **Client relationship management:** The TTL will (i) coordinate World Bank supervision to ensure consistent project implementation, as specified in the legal documents (that is, Financing Agreement, Project Operational Manual) and (ii) meet regularly with the client, to gauge project progress in achieving the PDO and address implementation roadblocks as they may arise.

211. Implementation support needs will be carried out using the annual supervision budget allocated to the project and expenses will be in compliance with the World Bank regulations related to the supervision of lending projects. The team task lead will be accountable for the management of the annual budget allocation for the project.

Implementation Support Plan

212. **The ISP approach entails close monitoring of the Project's technical design and implementation aspects, governance, fiduciary, and safeguards issues.** Given the overall design and scope of the project, a multi-disciplinary team comprised of technical specialists, along with fiduciary specialists will be needed to support project implementation.

Implementation Support Plan and Resource Requirements

Table 3.1. Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate	Partner Role
0–12 months	• Project effectiveness and implementation start-up • Initial support missions conducted • Review of progress made in year 1	Please see table 3.2	240,000	Admin and logistical support
12–48 months	• Implementation of planned activities/review of annual work plans and budgets, and cross-checking links between planning, budgeting, and results • Conducting of Implementation Support Missions (ISMs) • M&E of ongoing activities • Midterm review conducted 24 months after effectiveness	Same as above	240,000	Admin and logistical support

49–60 months	• Implementation of planned activities/review of annual work plans and budgets • Conducting of ISM missions • M&E of ongoing activities • Project completion and ICR preparation	Same as above	240,000	*Admin and logistical support*

Table 3.2. Resource Requirements

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Financial sector specialist and task team lead	12	Minimum 2 per year	*Overall supervision and implementation support*
Financial sector specialist and co-task team lead	12	Minimum 2 per year	*Overall supervision and implementation support*
Banking sector specialist	*4*	*Minimum 1 per year*	*Will provide technical support in the implementation of component 1.2.2*
AML/CFT specialist	*4*	*Minimum 1 per year*	*Will provide technical support in the implementation of component 3*
IT specialist	*4*	*Minimum 1 per year*	*Will provide technical support on all IT components of the project*
Statistician	*5*	*Minimum 2 per year*	*Will provide technical support in the implementation of component 1.1*
Microfinance specialist	*4*	*Minimum 1 per year*	*Will provide technical support in the implementation of component 1.1.2*
Payment Systems specialist	*4*	*Minimum 1 per year*	*Will provide technical support in the implementation of component 2.1*
Financial inclusion specialist	*5*	*Minimum 2 per year*	*Will provide technical support in the implementation of component 2.2*
Credit bureau/registry specialist	*4*	*Yaoundé based*	*Wil provide technical support in the implementation of component 2.3*
Fiduciary specialists (FM and procurement)	*4*	*Yaoundé based*	*Will support supervision*

ANNEX 5: ECONOMIC AND FINANCIAL ASSESSMENT

213. **The economic and financial assessment took the form of a cost-effectiveness analysis.** TA under this project will strengthen the capacity of the BEAC, COBAC, and GABAC to create, improve, and implement policies, strategies, processes, and procedures pertaining to monetary issues, banking sector regulations and supervision, financial inclusion, and assessment of compliance with FATF recommendations. However, the TA under this project will not involve advice on the content of the policy decisions on these issues. This is primarily because advice on the content of such policies falls under the mandate of the IMF and the FATF. Without making assumptions about the content of such policies, for example, whether the monetary policy will be accommodative or not, benefits of the project's activities cannot be measured in monetary terms. Due to this situation, where the project's cost is measurable and could be compared in relative terms but the benefits are not measurable, the economic analysis employed for evaluation of the project is cost-effectiveness and not cost-benefit.

214. **Applying the methodology of the cost-effectiveness analysis, the least-cost method of achieving the desired PDOs was identified.** The analysis was conducted in four steps: (a) identifying ideal outcomes, specifically strengthening the capacity of the BEAC, COBAC, and GABAC to achieve financial stability, inclusion, and integrity; (b) identifying alternative methods to achieve the ideal outcomes, from an institutional and a methodological perspective; (c) attributing costs to the method used by this project and alternative methods, and selecting the least-cost method; and (d) performing sensitivity analysis on the selected least-cost method by altering set assumptions such as punctual procurement, stable macroeconomic environment, and stable security situation, which showed variation in the cost under several possible future scenarios.

215. **Step 1: The PDO is to strengthen the capacity of selected CEMAC regional financial institutions.** Capacity development will focus on (a) macroeconomic and financial sector stability (through better information, and better supervision of the banking and the MFI sectors); (b) financial inclusion; and (c) financial integrity. This objective and goals could be achieved by using different institutions and methods. The most feasible alternatives and their costs are considered in the second step.

216. **Steps 2 and 3: From the institutional point of view on a donor side, activities to strengthen the capacity of the BEAC, COBAC, and GABAC could be undertaken by another international governmental organization active in developing institutional capacity in the CEMAC region, such as the IMF or the AfDB.**

(a) The IMF delivers its capacity development TA to CEMAC through its regional center, AFRITAC Central. The IMF's allocation to regional institutions versus national institutions is increasing; however, the primary focus remains on national institutions. For example, AFRITAC Central's work program for 2017–2018 allocated only 12 percent or 56 person-weeks to capacity development of regional institutions. Out of those resources, only some would focus on the same objectives as the present project, such as regulation and banking supervision. Therefore, World Bank Group intervention through this project will be complementary to the IMF's work and will fill the gap in capacity development of the regional institutions. In a scenario where the IMF would undertake fulfilling this PDO, AFRITAC Central would need to reallocate resources, which involves large opportunity cost.

(b) The AfDB is involved in the economic and financial governance projects in the region. However, the AfDB lacks the global expertise that the World Bank Group offers in terms of lessons learned from strengthening capacity of the regional financial institutions in other regions of the world, such as OECS and the EU. To match the level of the World Bank Group expertise, the AfDB would need to hire external consultants, which would increase the cost of deliverables. Moreover, the World Bank Group has experience and institutional knowledge on delivering capacity development to the BEAC, COBAC, and GABAC through its recent CEMAC Regional Institutions Support Project.

217. To sum up, the World Bank Group has comparative advantage in terms of its expertise and available finance to achieve the PDO in the most cost-effective and efficient manner.

218. **From the institutional point of view on the beneficiary side, TA proposed by some components of the project could be delivered to national agencies such as national statistical agencies or local FIUs.** However, the administrative complications of the disbursement of funds, the need for several layers of approval, and multiple stakeholders would add to the delays and unproductive competition and drive up the transaction costs. From a programmatic perspective, delivering TA to the regional institutions reaps the benefits of economies of scales and saves several millions of dollars on administrative costs.

219. **From the methodological perspective, there are several ways of delivering TA to build the capacity of the CEMAC's regional financial institutions, which could achieve the same outcomes but at different costs.** The project covers all key elements of the TA aimed at strengthening institutional capacity, specifically skill upgrading, procedural and process improvements, and organizational strengthening.

220. **TA to strengthen the institutional capacity under the project's activities will be delivered through trainings, workshops, seminars, consultative missions, on-site visits, peer review, research and assessment studies, and internships for statisticians but not through twinning.** Twinning is employed with an objective to transfer relevant operational knowledge from a more mature organization to a developing organization with similar functions and structure. However, the World Bank Institute, in its evaluation study of twinning projects, lists high costs as being one of the main disadvantages of twinning. To achieve the PDO, twinning would need to be set up with a regional financial institution of another regional economic and monetary union, which would add several million dollars to the cost due to increased logistical and administrative expenses, without adding value. To sum up, the project's chosen mix of methods and modes of delivery of TA are the most cost-efficient out of all feasible options.

221. **Step 4: Sensitivity analysis on the established least-cost method of achieving the PDO reveals that changes in several assumed variables would alter the costs.** One of the assumptions of the project's time line is punctual procurement. Delays in procurement would increase the opportunity costs of the World Bank Group funds and delay the efficiency gains that beneficiaries requested. On the other hand, timely or ahead of schedule procurement would achieve the opposite results. A second assumption is about the absorptive capacity of the BEAC, COBAC, and GABAC, specifically that adequate staff resources would be allocated from the beneficiaries to cooperate and participate in the project's activities. Exogenous shocks, such as further drop in oil prices, increase in interest rates, or deterioration of the security situation in the region, will result in a decline in capital inflows and would negatively affect regional reserves. In a situation of intensified crisis, the staff of the regional financial institutions might switch their focus to addressing more urgent problems and divert their time and attention from the

capacity-building activities of the project. Such delays will increase the opportunity costs of the World Bank Group funds. If, however, the macroeconomic environment and the security situation are stable or improved, the opportunity cost of the World Bank Group funds would be lower and the institutions would reap the benefits of improved efficiency.

222. **In conclusion, activities proposed by the project constitute the most cost-effective approach to achieving the PDO after evaluating costs of several alternatives from the institutional and methodological perspectives.** Sensitivity analysis revealed several variables that could delay or speed up the implementation of the project and increase or decrease the opportunity cost of the World Bank Group's funds. Specifically, on-time procurement, a stable macroeconomic environment, and a stable security situation in the region would secure an on-schedule implementation of the project's activities, which would in turn decrease the opportunity cost of the World Bank Group funds and improve institutional capacity of the BEAC, COBAC, and GABAC. During the evaluation of the project midway through its implementation, alternative ways of achieving the desired PDOs, as well as any changes in the variables considered under the sensitivity test, will be revisited and project activities will be adjusted accordingly.

Rationale for Public Funding (for Overall Project) and World Bank Group's Value Added

223. **The main rationale for the CEMAC regional institutions borrowing from IDA and investing these public resources in key financial sector regulators is the necessity to improve the financial sector's stability, inclusion and performance.** Stable, resilient and inclusive financial markets that provide accessible financial services and affordable credit to the market contribute to economic growth and alleviates the fiscal burden in the long-run. Strengthening financial market infrastructure creates a vital public good, while strengthening the financial sector regulators' capacity on regulation and supervision will help mitigate financial stability risks and deepen the market. The related TA is an important intervention to ensure financial sector development, which can help support CEMAC regional development objectives.

224. **The World Bank Group intervention provides an important added value to this operation.** The institution has acquired significant expertise in fostering the development of stable and inclusive financial systems across the world. Therefore, it is uniquely positioned to strengthen financial institutions and financial intermediation in the CEMAC region. The World Bank Group has a global mandate on financial depth and stability with an objective of developing sustainable financial institutions and markets and mitigation of financial crisis. Furthermore, it also has the mandate to expand financial inclusion for individuals and firms around the world. Finally, it has extensive experience working with regional institutions around the world (West African Economic and Monetary Union [WAEMU], East African Community, CEMAC, Organization of Eastern Caribbean States [OECS], and EU). As for the previous operation, the World Bank Group will use its convening powers to allow regional institutions to cooperate more effectively.

ANNEX 6: BUILDING STATISTICAL CAPACITY AND GOVERNANCE MECHANISMS AT BEAC: COORDINATION WITH OTHER STATISTICAL INITIATIVES

225. The statistical component of the proposed CEMAC project, especially the development of the CIEA, includes activities that may overlap with ongoing or planned initiatives to support the development of statistics in CEMAC member countries.

226. During the preparation of the project, special attention was given to these initiatives to ensure good coordination and develop possible synergies among stakeholders. This is particularly important since many of the expected indicators to be used for the calculation of the CIEA should preferably use the results of the latest enterprise census as a sample frame. The CEMAC project relies on other initiatives for the organization of such censuses.

227. Currently, economic statistics are produced by a variety of national institutions in each country. The situation is basically as follows:

- The BEAC is responsible for the compilation of monetary and financial statistics. These statistics are produced monthly and on time. They are first compiled by national BEAC agencies, then reviewed and validated by the BEAC headquarters. There is a lack of data for interest rates offered by financial institutions to nonfinancial entities on deposits and loans. Quality is generally considered as fair, but reconciliation between the domestic banking sector's net credit to the Government and the Government financial accounts is a key concern in at least one country.

- The BEAC is responsible for the compilation of balance of payments statistics, except in Cameroon where the balance of payments is produced by the Ministry of Finance. Balance of payments is compiled annually, except in Cameroon where quarterly balance of payments is compiled (on a cash basis). Balance of payments statistics are disseminated with significant delays. The need for better data coverage was raised in a few countries.

- The Ministry of Finance is responsible for the compilation of fiscal sector statistics, which generally include monthly or quarterly central government operations ('*Tableau des opérations financières de l'Etat*') and central government debt statistics. The quality of fiscal data is generally considered broadly adequate for users' needs, with some shortcomings in coverage, periodicity, timeliness, and accessibility.

- NSIs are responsible for the compilation of real sector statistics, which should include most of the indicators to be considered for the calculation of the CIEA. In many CEMAC countries, production is limited to national accounts statistics (annual, with some delay) and a consumer price index (monthly, covering one or two cities, with sometimes very old basis). A few of them also produce an industrial production index (IPI), often with serious quality issues.

- In several countries where the NSI is not in a position to produce short-term indicators, units in charge of assessing the economic situation conduct their own surveys and build their own indicators.

228. The NSI is generally supposed to coordinate the national statistical system but very often is not able to perform this task. More generally, the weakness of the NSI in several countries is a major risk for the project, especially for the implementation of the CIEA. It is expected that current World Bank statistical projects and World Bank statistical projects in preparation, as well as assistance provided by other partners, will help address part of the issues NSIs are facing, but they may not cover all the needs related to the calculation of the CIEA or may not do so on time.

229. To minimize this risk, the project will assist countries with the compilation of requested indicators, wherever it is needed. While the list of indicators to be used for the calculation of the CIEA is not yet drawn up, some of them are probably not compiled by national administrations. Current initiatives may support the development of some missing indicators, but all needs will not be covered; once the list of indicators to be used for the calculation of the CIEA is drawn up, it will be important to know which of them are currently compiled by national administrations, developed with the support of current initiatives, or are to be supported by the proposed CEMAC project.

230. For this purpose, information is shared, and will continue to be shared, with task team leaders of World Bank Group projects and experts from other organizations working directly in areas of interest for the CEMAC project. The main current statistical initiatives in the CEMAC region are as described in the following sections.

231. See Table 5.1.

Table 5.1.World Bank Projects

Country	Cameroon	Central African Republic	Chad	Congo, Rep.	Equatorial Guinea	Gabon
Title of the project	Strengthening Public Sector Effectiveness and Statistical Capacity Project	Data for Decision Making	Statistical Development	Statistics Capacity Building Project	EQG - Statistics Development	Statistical Development Project
Project ID	P151155	P160717	P159434	P133731	P148577	P160717
Amount (US$, millions)	30.00	10.49	12.00	33.00	5.96	50.00
Amount for statistics (US$, millions)	10.00	10.49	12.00	33.00	5.96	50.00
Duration (years)	5	4	6	5	5	5
Period	2018–2022	2017–2020	2017–2022	2014–2019	2014–2018	2017–2021
Activities connected to the CEMAC project	Subcomponent 4.2 of the project includes activities for the improvement of national accounts statistics. Current planned activities are (a) the collection of data on informal cross-border trade (ICBT) for a baseline year and the development of a methodology of collecting those	Subcomponent 2.1 of the project includes activities related to the annual agricultural surveys, the implementation of a revised consumer price index, and the rebasing of the national accounts. Agriculture production index and consumer price index could be part of the CIEA, while the rebasing of	Subcomponent 2.3 of the project includes the organization of business surveys, the expansion of the coverage of the consumer price index to the whole country, including rural areas, and support to the production of quarterly economic situations, which may encompass the development of	Subcomponent 2.1 includes many activities directly related to or useful for the improvement of short-term indicators, including an enterprise census; harmonization of external trade statistics; extension of coverage and updating of the consumer price index to more	The Statistical Development Project for Equatorial Guinea is a Reimbursable Advisory Services Agreement between the Republic of Equatorial Guinea and the World Bank. As such, the project does not support the collection of data or acquisition of equipmen, but only	The project includes many activities that will lead to better short-term indicators: organization of a national economic census, quarterly business surveys, and possibly specific surveys (as needed); TA and funds to update and extend the coverage of the consumer price

Country	Cameroon	Central African Republic	Chad	Congo, Rep.	Equatorial Guinea	Gabon
	data for the subsequent years and (b) the enterprise survey for 2017 and the development of a methodology to merge the quarterly national account survey and the former '*enquête trimestrielle de conjoncture*'. ICBT results could help improve external trade indexes.	national accounts may imply the development of new short-term indicators (such as an IPI/Industrial Price Production Index [IPPI], turnover index, and so on)	short-term indicators.	urban areas; production of an IPI/IPPI, external trade indexes, and wholesale price index; and improvement of agricultural and mining statistics.	provides technical advice. Areas of interest for the CEMAC project include provision of advisory services for an enterprise census and an agriculture survey. In addition, the strengthening of the statistical system will improve the timely dissemination of quality statistics, including those to be used for the calculation of the CIEA.	index; support to regularly produce and disseminate macroeconomic statistics; organization of an agriculture census; and three subsequent annual surveys. The NSI specifically mentioned the IPI/IPPI, unit value index (for exports and imports), agriculture volume and price indexes, turnover index, service price index, and wholesale price index as priorities.

IMF Projects

232. The IMF is providing TA to several CEMAC member countries for the development of short-term indicators, mainly aimed at feeding the compilation of quarterly national accounts. TA is provided by AFRITAC Central, where a resident expert on national accounts and price statistics is located. Support is provided through short TA missions (generally two weeks) conducted by regional experts. So far, AFRITAC Central has focused its activities on the IPI/IPPI. The regional expert for the IPI/IPPI TA missions is an expert from the Economic and Statistical Observatory for Sub-Saharan Africa, which ensures compliance with international and regional recommendations. Since AFRITAC Central is providing only TA, some countries (such as Gabon) are still waiting for the organization of an enterprise census that will serve as the sample frame.

233. **Cameroon.** AFRITAC Central is providing TA to the NSI for the modernization of the IPI/IPPI. Several TA missions have already been fielded, and additional TA will be provided during FY2018.[22]

234. **Equatorial Guinea.** AFRITAC Central will provide TA to the NSI during FY2018 for the development of an IPI/IPPI.

235. **Gabon.** AFRITAC Central has provided TA to the NSI for the modernization of the IPI/IPPI during FY2015.

Other Partners

236. The EU and the AfDB have provided funds for the organization of business censuses in Chad (2014) and Cameroon (2016).

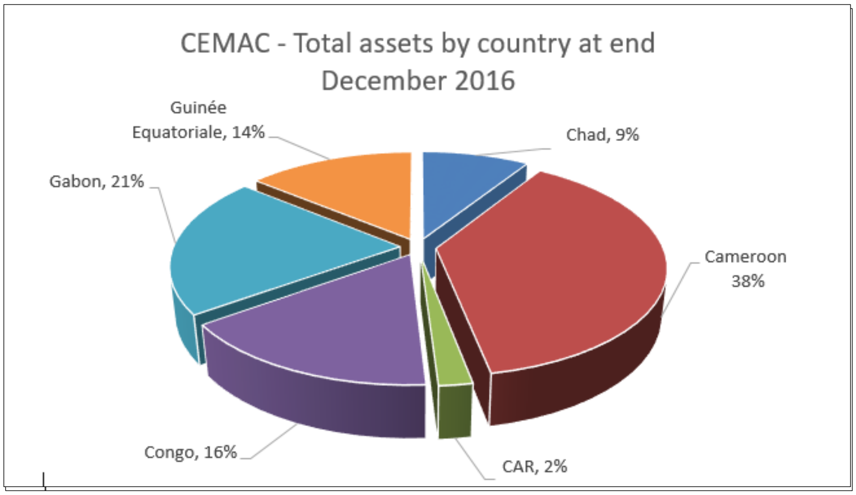
[22] May 2017–April 2018.

ANNEX 7: CEMAC BANKING SECTOR

237. At end-December 2016, the banking system in the CEMAC region was composed of 52 banks: Cameroon (14), Central African Republic (4), the Republic of Congo (11), Gabon (10), Equatorial Guinea (5), and Chad (8). Moreover, 10 non-deposit taking institutions are active in Cameroon (7) and in Gabon (3).

238. Cameroon, Gabon, and the Republic of Congo represent 75 percent of the total assets in the system.

Figure 6.1. CEMAC - Total Assets by Country at End of December 2016



Source: COBAC.

239. Aggregate banking assets in the CEMAC have reached XAF 13,074 billion (US$20.9 billion) at the end of 2016 (+1.95 percent compared to end-December 2015) with a decrease in the Republic of Congo and Equatorial Guinea.

240. Credits in arrears have dramatically increased in the last two years at more than 15 percent in December 2016, concentrated in Chad, Equatorial Guinea, the Republic of Congo, and Gabon and mostly in the construction sector.

241. Only 25 banks out of 54 are complying with all prudential regulations.

Figure 6.2. CEMAC - Banks Credits by Country at End of December 2016

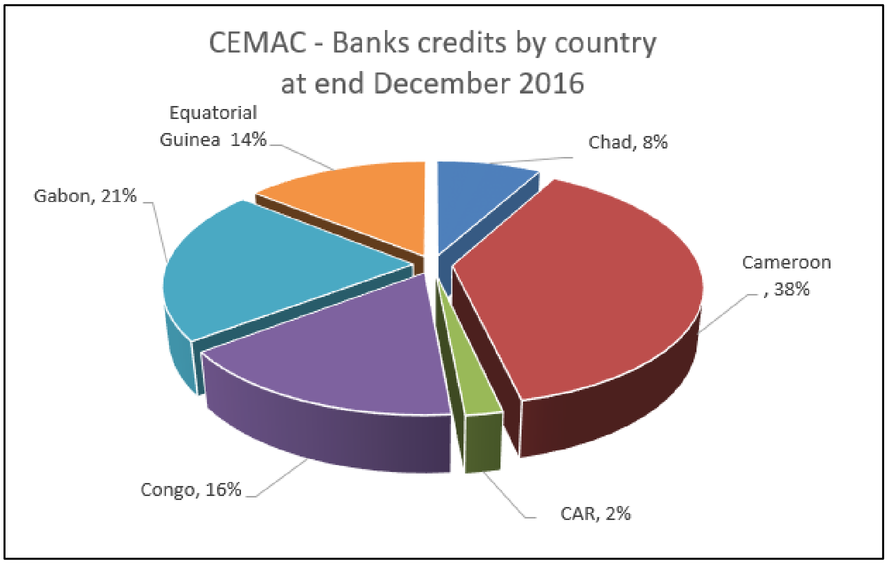
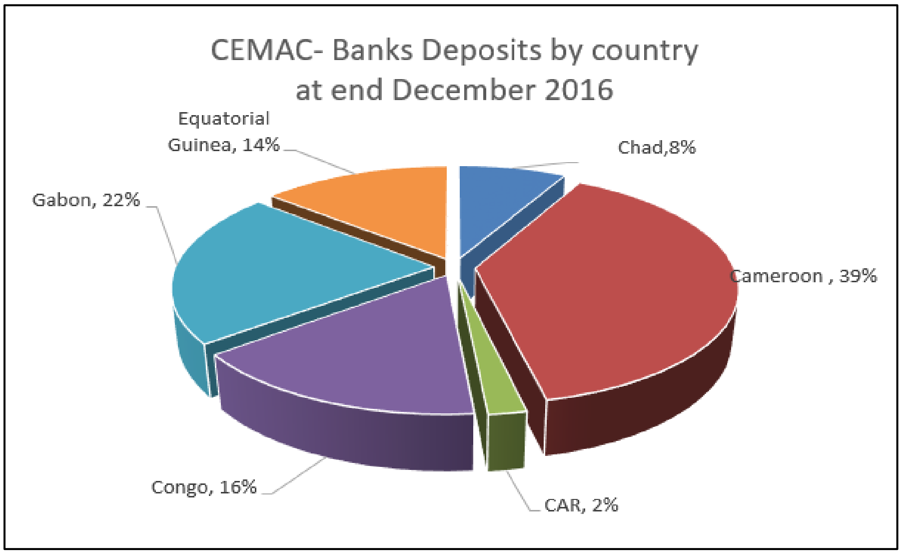


Figure 6.3. CEMAC - Banks Deposits by Country at End of December 2016



ANNEX 8: CEMAC MICROFINANCE SECTOR

242. The microfinance sector of the CEMAC region is composed of a total of 825 registered MFIs,[23] which are distributed in the six CEMAC countries, as in table 7.1.

Table 7.1. CEMAC - Evolution of the Number of Registered MFIs by Category and Country as of June 30, 2016

Categories	Countries						Total CEMAC
	Cameroon	Central African Republic	Congo, Rep.	Gabon	Equatorial Guinea	Chad	
1st category	**468**	**21**	**55**	**4**	**1**	**193**	**742**
- Independent	199	5	21	4	1	13	243
- Networks	269	16	34	—	—	180	499
2nd category	**49**	**3**	**10**	**8**	**2**	**4**	**76**
3rd category	**4**	**—**	**2**	**1**	**—**	**—**	**7**
Total	**521**	**24**	**67**	**13**	**3**	**197**	**825**

Source: COBAC.

243. Data are available only from about 60 percent of the MFIs, namely those that have provided their financial statements to the COBAC as of end-June, 2016. These statements cover about 90 percent of the total volume of the sector's activities. Some salient figures about the MFI sector as of June 30, 2016,[24] were the following:

- A total volume of assets of XAF 1,137 billion
- A gross loan portfolio of XAF 514 billion, which comprises mainly short-term loans
- A total volume of deposits from members/customers in an amount of XAF 909 billion, constituted mainly of sight deposits
- A poorly performing loan portfolio that is characterized by a total volume of XAF 66 billion of loans in default [25]
- A liquidity surplus of XAF 459 billion

244. As a whole, the MFIs operating in the COBAC region reportedly serve almost 1.8 million members/clients, most of whom are served in Cameroon and the Republic of Congo, as described in table 7.2.

[23] In addition, the mission was informed that there are a number of—mostly smaller—MFIs that are not registered either by the local authorities or by the COBAC.
[24] *Source:* MFIs' status in the CEMAC region as of June 30, 2016.
[25] The COBAC report states further, "it is important to underscore that the declared volume of loans in default does not reflect their real level in the CEMAC area. This statement is especially explained by the almost generalized lack of compliance with applicable rules for accounting and for the classification of loans in default."

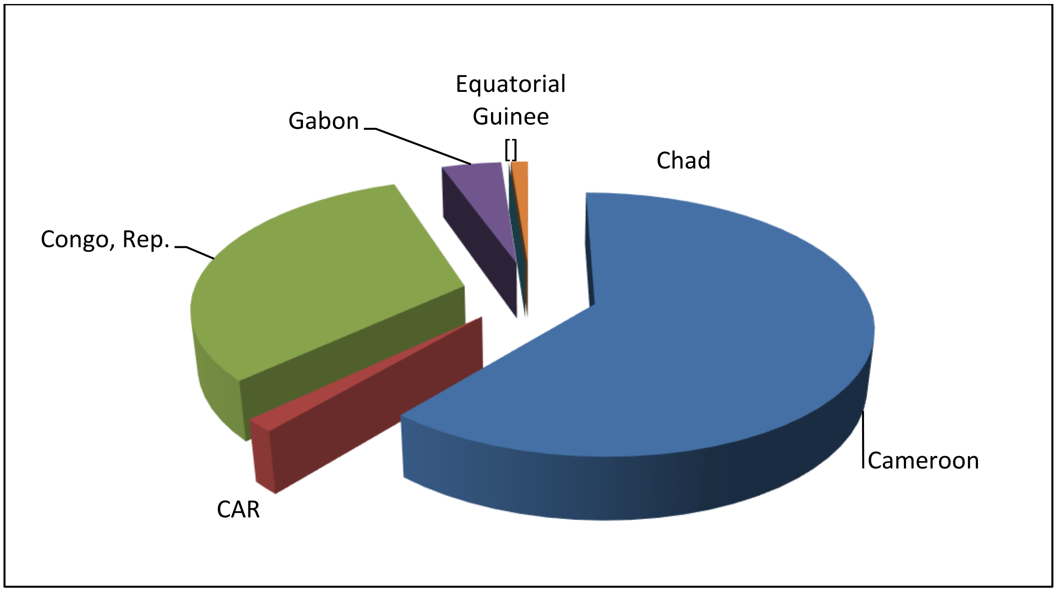
Table 7.2. CEMAC - Evolution of the Number of Members and Clients of MFIs

Country	December 31, 2015	June 30, 2016	Annual Variation (%)
Cameroon	1,235,674	1,235,674	0.0
Central African Republic	29,350	29,350	0.0
Congo, Rep.	305,059	305,061	0.0
Gabon	121,077	121,488	0.3
Equatorial Guinea	—	—	—
Chad	66,916	66,921	0.0
Total CEMAC	1,758,076	1,758,494	0.0

Source: COBAC.

245. According to the information provided by the COBAC, the volume of the MFIs' assets in the six countries is distributed as shown in figure 7.1.

Figure 7.1. Distribution of Total Assets by Country as of June 30, 2016



Source: COBAC.

246. Overall, the situation of the MFI sector is concerning. According to the COBAC report, at the end of June 2016, "the prudential situation of the microfinance entities is fragile…their situation is characterized by the lack of compliance to several norms…several MFIs show a net negative or insufficient equity position, and they do not comply with applicable capital adequacy standards. In addition, several MFIs have a situation of lack of liquidity that is worrying."

247. As of March 2017, 14 MFIs with a combined balance sheet of XAF 32 billion (equivalent to about 3 percent of the total) are being liquidated while four others with a total balance sheet of XAF 9 billion (less than 1 percent of the total) have been intervened by the authorities and operate under provisional administration.

248. The MFIs and the members of their governing bodies are registered by the local authorities, which exercise an administrative oversight. Prudential oversight is carried out the by the COBAC's Department of Microfinance (*Departement de la Microfinance*, DM). To oversee the MFI sector with its 825 registered entities, the DM has 10 staff who are stationed at the COBAC's headquarters in Libreville. The DM staff is mainly dedicated to carry out the off-site supervisions and coordinate with the Banking Supervision Department to carry out on-site supervision visits of a few MFIs. Off-site supervision is carried out using the 'SESAME' software, which has limited analytical capabilities.

249. The CEMAC authorities are in the process of updating the regulatory framework for the operation of the MFI sector. They have already drafted a new microfinance framework—the '*Reglement CEMAC/*Central Africa Monetary Union (*Union Monétaire de l'Afrique Centrale*, *UMAC*)*/COBAC relatif aux conditions d'exercice et de contrôle de l'activite de microfinance dans la CEMAC*'—which has already been approved by the COBAC and by the BEAC board. In addition, the COBAC has already drafted the secondary regulations (the 'COBAC *reglements*') that will be issued once the *Reglement* CEMAC/UMAC is passed by the Council of Ministers. This new framework is, among other things, expected to strengthen the (internal and external) control functions of MFIs, while it will contribute to better consolidate and integrate the sector by (a) mandating all category 1 MFIs to affiliate to a network and (b) substantially increasing the minimum capital requirements for category 2 MFIs. In addition, the DM is planning to transition its current software to the 'SPECTRA' software that is already being used in the supervision of banks and that will allow for the implementation of an early warning system for the MFIs.