# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 01-Mar-2018 | Report No: PIDISDSA23149

## BASIC INFORMATION

### A. Basic Project Data

| Country | Project ID | Project Name | Parent Project ID (if any) |
|---|---|---|---|
| Central Africa | P161368 | Strengthening the Capacity of Regional Financial Institutions in the CEMAC Region | |
| **Region** | **Estimated Appraisal Date** | **Estimated Board Date** | **Practice Area (Lead)** |
| AFRICA | 22-Jan-2018 | 26-Apr-2018 | Finance, Competitiveness and Innovation |
| **Financing Instrument** | **Borrower(s)** | **Implementing Agency** | |
| Investment Project Financing | Banque des Etats de l'Afrique Centrale (BEAC) | Commission Bancaire de l'Afrique Centrale - COBAC, Groupe d' Action contre le Blanchiment d' Argent en Afrique Centrale (GABAC) | |

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 1. Strengthening the Capacity of BEAC and COBAC to Implement their Financial Stability Mandate
Component 2: Strengthening the Capacity of BEAC and COBAC to implement their Financial Inclusion Mandate
Component 3: Strengthening Capacity of GABAC to Carry Out its Financial Integrity Mandate
Component 4: Supporting Selected Reforms through Results Based Financing
Component 5: Project Implementation

**Financing (in USD Million)**

| Financing Source | Amount |
|---|---|
| International Development Association (IDA) | 25.00 |
| IDA Grant | 10.00 |
| **Total Project Cost** | **35.00** |

Environmental Assessment Category

C - Not Required

Decision

The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### 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 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 50,813,450 people and a gross domestic product (GDP) of US$67,787,369,497. 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 the real GDP growth in 2016 to

[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.

its lowest in the last two decades, specifically to −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 the CEMAC 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. Financing provided by the BEAC helped accommodate public and private imbalances in the short term, but it depleted international reserves by 68 percent since 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,[2] 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.

## 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. The contribution of the banking sector to the financing of the economy is limited, representing only 10 percent of domestic credit provided to the private sector. 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). The regional authorities decided in November 2017 to merge the two exchanges.[3] Insurance and pension sectors remain underdeveloped.

6. **Access to finance is hampered by weak credit infrastructure and 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 the Enterprise Surveys, access to finance is identified as a major constraint by firms operating

[2] Accordingly, country programs aim at different adjustment efforts (both in stock and flow) tailored to restore domestic and external sustainability for each country.
[3] The regional regulator, the COSUMAF, will remain in Libreville (Gabon) and the regional stock exchange will be located in Douala (Cameroon).

in the region (table 2).[4] The value of collateral needed for a loan is very high. For example, it is 256 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.[5] Furthermore, collateral frameworks are underdeveloped and not a single 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, 88 percent of loans are from family and friends in Gabon, 84 percent in Cameroon, and 82 percent in Central African Republic. In all countries but Cameroon, borrowing from an informal lender is more

[4] Enterprise Surveys do not cover Equatorial Guinea.

[5] Specifically, in Chad, where only 2.3 percent of the adult population is covered, in Central African Republic 3.1 percent, in Cameroon 8 percent, in Equatorial Guinea 9 percent, in the Republic of Congo 12.2 percent, and in Gabon 50.8 percent.

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 (2015) | 11 | 3 | 8 | 17 | 30 |
| 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 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. 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 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[6] 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 problems. As of June 2016, the MFI gross loan portfolio was XAF 514 billion (approximately US$920.5 million) and total volume of loans in default of 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 14 staff dedicated to the supervision of the 825 MFIs.

11. **The COBAC has fully reviewed its banking resolution framework (CEMAC Regulation 02/14) but it 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 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

[6] Ration of liquid assets to short term liabilities and total deposits to total loans.

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 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),[7] 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 severally 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 2017–2021 (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

[7] 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 2017-2021**

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 Stratégique BEAC 2017-2021*

**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. Proposed Development Objective(s)

### Development Objective(s) (From PAD)

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.

### Key Results

16. **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**:

- 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 % population coverage of 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 % female population coverage of the regional public credit registry)

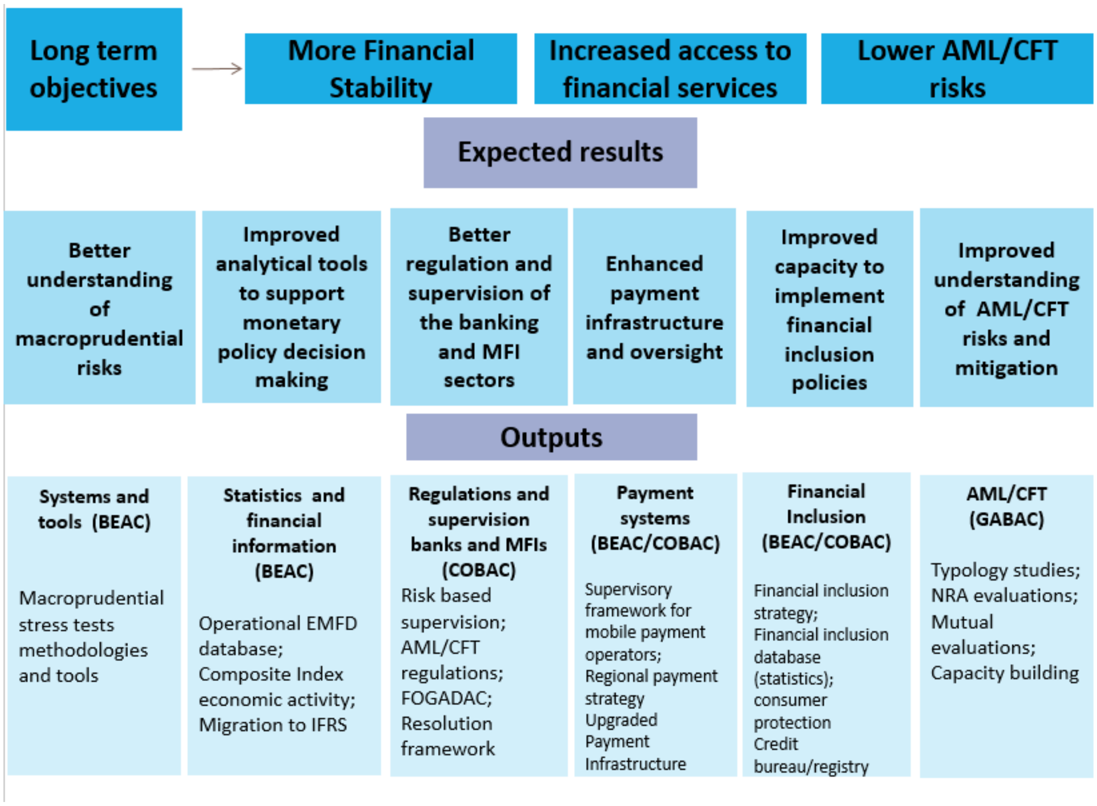
- Increased capacity of GABAC to comply with the FATF membership requirements (measured by the membership status of the GABAC at the FATF (which includes compliance by GABAC with the 2012 FATF standards).

17. **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

### D. Project Description

18. **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 support more 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 (a) better understand macroprudential risks (b) improve the analytical tools to support monetary policy decision making, (c) improve the regulation and supervision of the banking and microfinance sectors, (d) enhance the payment infrastructure and oversight, (e) improve the capacity to implement financial inclusion policies, and (d) improve 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

19. **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 silos, 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 are in the position to effectively implement this project.

**Component 1. Strengthening the Capacity of BEAC and COBAC to Implement their Financial Stability Mandate (US$13 million)**

***Subcomponent 1.1. Strengthening BEAC Capacity to Identify and Mitigate Macro-Financial Risks and Improve the Analytical Tools to Support Better Monetary Policy Decision-Making Process***

*Responsible agency: BEAC*

20. **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.

21. **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.

22. **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 the project team 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.

23. **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, 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 European Union [EU]) are already assisting the CEMAC countries to improve their national statistics system. The proposed project will complement the ongoing efforts. The project team 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 5.

***Subcomponent 1.2. Strengthening the Capacity of COBAC to improve Banking and Microfinance Regulation and Supervision***

*Responsible agency: COBAC*

*Subcomponent 1.2.1. Banking Sector Regulation and Supervision*

24. **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, which is underperforming since 2014.** The BCP Assessment of 2015 showed that the regulatory framework developed by the COBAC was not aligned with global good practices. As a result, 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.

25. **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 once the draft regulation on the designation of systematically important credit institutions is passed.

(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.

26. **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 for national authorities (that is, ministries of finance).

27. **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*

28. **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.

29. **The project will support COBAC with a review of the MFI sector regulations and policies to enhance its 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 a robust resolution mechanism for failing MFIs; (d) 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.

30. **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).

31. **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***

*Responsible agency: BEAC*

32. **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.

33. **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.

34. **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 (US$12 million)**

***Subcomponent 2.1. Payment Systems Infrastructure and Oversight***

*Responsible agency: BEAC*

35. **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.

36. **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.

37. **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.

38. **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.

39. **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.

40. **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.

41. **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***

*Subcomponent 2.2.1. Regional Financial Inclusion Strategy and Data Collection*

*Responsible agencies: BEAC and COBAC*

42. **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).

43. **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.

44. **The project will support the development of a regional financial inclusion strategy.** While selected national strategies exist (see 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*

45. **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 innovation solutions.

46. **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.

47. **The project will finance the creation of an Innovation Fund to finance financial technology (FinTech) pilots, to facilitate access to financial services particularly to women.** Through the Innovation Fund, 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 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.

48. **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 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.

49. **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***

*Responsible agency: BEAC*

50. **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.

51. **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.

52. **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 Carry Out its Financial integrity Mandate (US$4 million)**

***Subcomponent 3.1. Launch the 2nd Round of Mutual Evaluations of Member States' AML/CFT Regimes***

*Responsible agency: GABAC*

53. **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 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.

54. **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).

55. **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***

*Responsible agency: GABAC*

56. **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.

57. **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.

58. **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 (US$ 2 million)**

59. **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).

60. **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 (US$4 million)**

*Responsible agency: Project Implementation Unit (PIU)*

61. **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.

## E. Implementation

### Institutional and Implementation Arrangements

62. **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).**[8] 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 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.

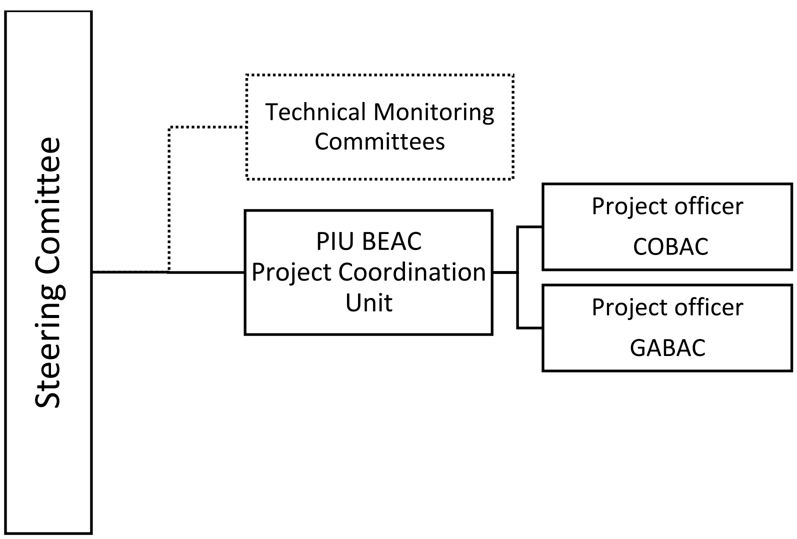
[8] The Government's project performance was rated Satisfactory in the Implementation Completion and Results Report (ICR) completed in March 2017.

63. **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.

64. **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.

65. **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. Two additional project officers will be recruited 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. Organizational Structure**

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### F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will only provide technical assistance to CEMAC regional institutions and does not intend to finance any infrastructure works. It does not foresee any negative impact on populations or environment.

### G. Environmental and Social Safeguards Specialists on the Team

Kristyna Bishop, Environmental Safeguards Specialist
FNU Owono Owono, Social Safeguards Specialist
Cyrille Valence Ngouana Kengne, Environmental Safeguards Specialist

## SAFEGUARD POLICIES THAT MIGHT APPLY

| Safeguard Policies | Triggered? | Explanation (Optional) |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | No | |
| Natural Habitats OP/BP 4.04 | No | |
| Forests OP/BP 4.36 | No | |
| Pest Management OP 4.09 | No | |
| Physical Cultural Resources OP/BP 4.11 | No | |
| Indigenous Peoples OP/BP 4.10 | No | |
| Involuntary Resettlement OP/BP 4.12 | No | |
| Safety of Dams OP/BP 4.37 | No | |
| Projects on International Waterways OP/BP 7.50 | No | |
| Projects in Disputed Areas OP/BP 7.60 | No | |

## KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
NA

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
NA

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
NA

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
NA

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
NA

### B. Disclosure Requirements

### C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
NA

**All Safeguard Policies**

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
NA

Have costs related to safeguard policy measures been included in the project cost?
NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
NA

## CONTACT POINT

### World Bank

Philippe Marie Aguera
Senior Financial Sector Specialist

Jean Michel Lobet
Senior Financial Sector Specialist

### Borrower/Client/Recipient

Banque des Etats de l'Afrique Centrale (BEAC)
Sarwal ADOUM MAHAMAT
Deputy Director Internal Relations
adoum@beac.int

### Implementing Agencies

Commission Bancaire de l'Afrique Centrale - COBAC
Halilou Yerima Boubakary
Secretary General
halilou@beac.int

Groupe d' Action contre le Blanchiment d' Argent en Afrique Centrale (GABAC)
Geoffroy MBOCK
Permanent Secretary
geoffroy.mbock@spgabac.org

## FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

## APPROVAL

| | |
|---|---|
| Task Team Leader(s): | Philippe Marie Aguera<br>Jean Michel Lobet |

### Approved By

| | | |
|---|---|---|
| Safeguards Advisor: | Maman-Sani Issa | 21-Feb-2018 |
| Practice Manager/Manager: | Rashmi Shankar | 21-Feb-2018 |
| Country Director: | Issa Diaw | 01-Mar-2018 |