



# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 12-Sep-2017 | Report No: PIDISDSC20394



**BASIC INFORMATION**

**A. Basic Project Data**

Country Central Africa	Project ID P161368	Parent Project ID (if any)	Project Name Strengthening Financial Regional Institutions and Intermediation in the CEMAC Region (P161368)
Region AFRICA	Estimated Appraisal Date Oct 23, 2017	Estimated Board Date Dec 08, 2017	Practice Area (Lead) Finance & Markets
Financing Instrument Investment Project Financing	Borrower(s) Banque des Etats d' Afrique Centrale (BEAC)	Implementing Agency Banking Sector Commission of the Central African States - COBAC, Groupe d' Action contre le Blanchiment d' Argent en Afrique Centrale (GABAC)	

**Proposed Development Objective(s)**

The Development Objective of this Project (PDO) is to strengthen the capacity of the Central African regional institutions through the provision of financial sector technical assistance and infrastructure.

**Financing (in USD Million)**

Financing Source	Amount
International Development Association (IDA)	35.00
IDA Grant	0.00
<b>Total Project Cost</b>	<b>35.00</b>

Environmental Assessment Category C-Not Required	Concept Review Decision Track II-The review did authorize the preparation to continue
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Other Decision (as needed)

## B. Introduction and Context

### Regional Context

**The Central African Economic and Monetary Union (*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 unions existing in the world and is composed of six member states including Cameroon, Central African Republic (CAR), Chad, Republic of Congo, Equatorial Guinea and Gabon. The CEMAC has a population of approximately 50 million people and a GDP of 70 billion USD (2016 IMF forecast). The CEMAC region has a common currency, the Franc CFA (FCFA), which is pegged to the Euro and guaranteed by the French Treasury.<sup>1</sup> The region is very diverse in terms of income per capita (e.g. GNI per capita ranges from 330 USD in CAR to 12.820 USD in Equatorial Guinea in 2015). The member countries perform poorly in global indicators including MDG, WEF, ease of Doing Business and Transparency International. The CEMAC is composed of multiple regional institutions including a central bank, the Central Bank of Central African States (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 in Central Africa (*Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale* (GABAC); and a development bank (*Banque de Développement des Etats de l'Afrique Centrale* (BDEAC).

**The economic environment of the region has suffered a severe contraction due to the fall of oil prices since 2014.** Economic growth which exceeded 4 percent every year on average over 2010-2014, declined to 2 percent in 2015 and is only expected to have reached 1 percent in 2016 (with substantial risks of downward revisions as final figures become available). All the CEMAC member countries except for CAR are oil exporters and therefore government revenue is highly exposed to oil prices. Oil is the main source of foreign exchange and it represents 71 percent of exports, 39 percent of government revenue and 20 percent of the GDP of the region. As for the majority of oil rich countries, the economies of the region benefited from the oil boom of the 2009-2014 period. Economic growth over the same period was mostly state driven and private sector development was highly exposed to the state's development agenda (i.e. public procurement). The economy of the region is now contracted and IMF reports indicate that, because of the collapse in oil prices, the current account deficit grew from 1.8 percent of GDP in 2013 to 9.4 percent in 2015 and 9.3 percent in 2016.

### Sectoral and Institutional Context

**According to the 2016 CEMAC Financial Sector Assessment Program (FSAP), the financial sector remains shallow and mostly bank based.** The contribution of the banking sector to the financing of the economy is limited representing only 10 percent of the domestic credit provided to the private sector. Financial inclusion remains a key challenge for the region with less than 15 percent of the adult population that has access to a bank account. Financial intermediation and access to credit are weak due to the lack of collateral and credit information systems and a predictable and reliable judicial system. Capital markets are almost inexistent due to the coexistence of two competing markets (one domestic in

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<sup>1</sup> As a result, 50% of the foreign exchange reserves of the CEMAC member countries are deposited in an account at the French Treasury.



Douala and regional in Libreville). The regional institutions also lack adequate infrastructure to fulfill their financial sector mandates (i.e. reliable statistics, databases, payment infrastructures and IT systems). Although the FSAP acknowledged some progress compared to the 2005 FSAP, it also highlighted the need for the CEMAC to implement reforms more aggressively to improve the effectiveness of the regional institutions.

**The current economic environment is gradually affecting the liquidity of the banking sector and poses financial stability risks.** Non-performing loans have increased by approximately 50 percent in the last two years (10 percent of the credit portfolio in 2014 to 15 percent in 2016). 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, Congo and Equatorial Guinea. This increase is mainly due to the preponderant role of the state in financing the economy in the region. States are struggling to pay their debts to the banking sector as well as to the private sector in the context of public procurement. The liquidity of banks has been gradually tightening since 2015-16. The banks' liquidity level at the end of December 2016 averaged 110 percent compared to 138 percent in 2014. Deposits fell by 8 percent over two years, with an acceleration of this decline since mid-2016. The reduction of liquidity coupled with credit growth in 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 CEMAC banks, whereas it was only 0.07 percent two years earlier. This situation requires fast action by the BEAC and COBAC to ensure that the relevant legal framework and instruments are place to preserve financial stability and address any potential issue on a timely manner.

**The microfinance sector is also under pressure.** The financial situation of microfinance institutions remains concerning. The microfinance sector is composed of 825 microfinance institutions operating across the six member countries of the CEMAC region serving almost 1.8 million members/clients (equivalent to about 7 percent of the adult population). A significant part of the sector does not comply with prudential norms and is currently facing liquidity problems. As of March 2014, 14 MFIs representing 32 billion of FCFA were in the process of being resolved and additional four were under special administration regime. The COBAC, which oversees the supervision of MFIs, is understaffed and currently has 14 staff dedicated to the supervision of the 825 MFIs. As for the banking sector, the COBAC must ensure that the rights instruments and laws are in place in order to ensure the stability of the sector and protect the deposits of the poor which are the main users of MFIs.

**The financial sector is also exposed to security risks.** The security conditions are degrading rapidly in the region particularly in the northern territories. The security concerns are also contributing to the economic slowdown which could ultimately impact the financial sector. Illicit financial flows and exposure to money laundering and terrorism financing are another important concern in the region. The financial sector (banks, money transfer providers, exchange bureaus, microfinance institutions) is particularly exposed to ML/FT risks due to lack of capacity and weak supervision at/by the relevant regional institutions (BEAC, COBAC and domestic authorities). As highlighted in the 2016 CEMAC FSAP AML/CFT Technical Note, strengthening AML/CFT frameworks remains a high priority for the region as important financial flows are generated from corruption, the embezzlement of public funds, the trafficking of arms and natural resources (diamonds, oil, other mining, fishing, wildlife), illegal logging, and piracy in the Gulf of Guinea. A coordinated action by the regional CEMAC institutions is required to address this important risk.

**The current environment requires effective policy actions by the CEMAC regional institutions, particularly the 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 has started the development of a new Strategic Plan for the period 2017-2021. Furthermore, the COBAC is actively working on multiple fronts to address key banking sector shortcomings including connected lending, risk concentration, increasing credit in arrears, corporate governance and AML/CFT. The COBAC is also working to strengthen its prudential supervision framework for banks and MFIs. Risk based and consolidated supervision regulations are in the process of being developed. The GABAC has also developed a Strategic Action Plan in 2016 to achieve full membership of the FATF and help member states in implementing sound and efficient AML/CFT regimes.

**The international donor community has been intensifying its interventions since 2016 to provide support to the regional institutions during this difficult period.** Following the extraordinary CEMAC Heads of State summit on December 23, 2016, the IMF has been intensifying policy discussions with the regional institutions, particularly the Commission, BEAC and COBAC. An agreement was reached on the implementation of several measures, including the progressive elimination of statutory advances to the States. IMF programs under the Extended Fund Facility (EFF) were approved by the Board with Gabon on June 19, 2017 and with Cameroon on June 26, 2017. Discussions are progressing with Equatorial Guinea, and with the Republic of Congo. The World Bank Group is now preparing a series of DPOs for Gabon and Cameroon, with a view to submitting for a Board approval in October-November 2017. In addition to these programs, the donor community is actively providing technical assistance to build capacity at the regional institutions level (see Annex 4).

**The CEMAC regional institutions require financial support to finance technical assistance and to upgrade key financial sector infrastructure.** The newly appointed governor of the BEAC has officially requested technical assistance for the World Bank Group to work jointly with the BEAC, COBAC and GABAC on the implementation of their strategic action plans. The key areas of support identified by the governor in response to the key regional risks are the following: strengthening of the statistical capabilities of the BEAC to inform monetary policy decisions, strengthening banking and microfinance supervision, modernization of payment system infrastructures, financial inclusion and AML/CFT frameworks.

#### Relationship to CPF

**The project is aligned with the objectives of the CPF and CPS frameworks 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 (para 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 (para 87). For the Republic of Congo, the Pillar 1 of the FY13-FY16 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 (para 57 and 58). The Gabon CPS of 2012 states that regional integration remains a key priority that supports economic growth. The financial sector agenda including money laundering remained a key priority for the World Bank Group in Gabon.

**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 RIAS of 2003 (Report No. 25328) identified regional financial integration as



one of the key priorities for CEMAC. Furthermore, the second pillar of the Sub-Saharan RIAS of 2008<sup>2</sup> 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 (paragraph 28). Furthermore, the 2011 progress report<sup>3</sup> 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 (paragraph 58).<sup>4</sup>

### **C. Proposed Development Objective(s)**

The Development Objective of this Project (PDO) is to strengthen the capacity of the Central African regional institutions through the provision of financial sector technical assistance and infrastructure.

Key Results (From PCN)

**The key preliminary outcome indicators will reflect these expected results:**

- On financial stability: increased compliance by banks, MFIs and other licensed financial institutions operating in the CEMAC region with new and existing prudential regulations;
- On financial Inclusion: Increase in the number of accounts with banks and MFIs;
- On financial Integrity: development of new money-laundering and terrorism financial risk assessment frameworks by the GABAC.

**The preliminary Intermediate indicators could include:**

- On financial stability: (i) the Economic, Financial and Monetary Database (EFMD) of the BEAC is fed and updated on a monthly basis by the end of the project; (ii) new prudential regulations are adopted or amended to comply with specific Basel Core principles; (iii) supervision on a consolidated basis is introduced.
- On financial inclusion: (iv) compliance by a number of mobile money operators representing a significant part of the sector with regulatory and supervisory norms; (v) number of mobile payment and MFI accounts is increased, and (vi) number of providers, access points and points of service is increased.
- On financial integrity: (vii) number of mutual evaluations carried out by the GABAC in compliance with the FATF methodology.

### **D. Concept Description**

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<sup>2</sup> <http://siteresources.worldbank.org/INTAFRREGINICOO/Resources/1587517-1271810608103/RIAS-Paper-Final-Approved-Oct2010.pdf>.

<sup>3</sup> [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/03/24/000333037\\_20110324060711/Rendered/PDF/603870CASP0P101OFFICIAL0USE0ONLY191.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/03/24/000333037_20110324060711/Rendered/PDF/603870CASP0P101OFFICIAL0USE0ONLY191.pdf).

<sup>4</sup> A new RIAS is in the process of being drafted. Subsequent reports (PAD, etc) will be updated to reflect the new strategy.



1. Description

**Due to the regional nature of the project, the operation will focus on delivering technical assistance to three regional institutions including the BEAC, COBAC and GABAC across key thematic areas.** Building on the lessons learned of 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 institution level on silos, the project has identified key financial sector themes, including stability, integrity and inclusion, to deliver technical assistance horizontally across the beneficiary institutions. This approach should encourage better regional cooperation across institutions and more effective implementation of the relevant reforms. The project will support technical assistance activities to enhance the capacity of the BEAC, COBAC and GABAC to fulfill their financial stability, integrity and inclusion mandates.

**The preliminary cost structure is the following:**

Components	Amount
<b>C1: Financial Stability mandate of BEAC and COBAC</b>	<b>21</b>
<b>C2: Financial Inclusion Mandate of BEAC and COBAC</b>	<b>7</b>
<b>C3: Financial Integrity (GABAC)</b>	<b>3</b>
<b>C4: Project implementation and Impact Evaluation</b>	<b>4</b>
<b>Total</b>	<b>35</b>

**Component 1: Strengthening the Financial Stability and Integrity Mandate of the BEAC and COBAC (US\$ 21 million)**

**Sub-Component 1.1. Strengthening the statistical capacity of the BEAC**

**The project will strengthen the statistical capabilities of the BEAC to improve the institution’s monetary policy decision making process.** Despite a prosperous period of high level of liquidity, external shocks and high levels of dependency to oil prices have showed the weaknesses of the monetary policy conducted by the BEAC. Growth in the CEMAC region contracted to 1.8 percent in 2016, down from 4.9 percent in 2014. Beyond the political implications of conducting monetary policy, the BEAC faces significant challenges in terms of access to reliable statistical data. This situation undermines the BEAC's ability to make informed monetary policy decisions. The previous CEMAC operation successfully funded the purchase and initial development of an Economic, Financial and Monetary Database (EFMD). This database will be very soon operational; however, it 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 (NSI), who are the main data providers for the EFMD across the CEMAC region. This activity will require a significant commitment from the BEAC to build capacity among the different NSIs to ensure that normalized data is produced across countries according to specific methodologies and standards to feed effectively the EFMD.

**In addition to normalized data to be included in the EFMD, the BEAC will help INS and other concerned national administration produce short term indicators that will be used to calculate an Economic Activity Composite Indicator (EACI).** The EACI is a key component of the evaluation of the business climate, in a context where basic indicators often provide mixed messages. As explained by the Working Group set up by the BEAC to study the implementation of the EACI to support better monetary policy decision, this composite indicator is “indispensable for the reconciliation of the



real sector and the monetary sector” and will “provide a clear picture of the business climate within the CEMAC region, by kind of economic activity.” The Working Group has designed the methodology to be used for the calculation of the EACI but resources in member countries are lacking for the production of the basic data to be used for this calculation. The project will thus support the following activities: i) development of methodologies and procedures for statistical production, including basic indicators to be used for the calculation of the EACI, and data collection; ii) financing the purchase and renewal of certain IT licenses required for the normal operation of the EFMD; iii) financing the purchase of software and IT tools for processing and expanding the coverage of the EFMD; iv) development of methodology and tools to conduct macroeconomic stress tests; and v) capacity building for the EFMD team.

### **Sub-Component 1.2. Strengthening banking and microfinance regulation and supervision**

**The project will support the COBAC with the implementation of key banking sector regulations to enhance its supervisory capabilities and full regulatory compliance by banks.** The Basel Core Principles Assessment (BCP) conducted in the context of the FSAP in 2014 have shown that the regulatory framework issued by the COBAC had still room for improvement to comply with global good practices.<sup>5</sup> Loans to related parties, exposure diversification, compliance with minimum capital requirements, transparency, risk management, AML/CFT and cross border supervision remain problematic in the region. To address these shortcomings, the COBAC is in the process of reviewing or has already adopted new prudential regulations (own funds, loan classification and provisioning, internal controls). The COBAC intends to review its on-site and off-site supervisory policies and manuals to migrate from traditional supervisory approach to a risk based one. The COBAC is also working on the implementation of financial holdings and cross-border supervision. To complete and effectively implement these new measures, the COBAC requires technical assistance to develop operational tools and capacity building support for its staff. The project will support the following activities: i) technical assistance for drafting procedures and operational manuals for risk-based supervision, esp. supervision on a consolidated basis, financial holding supervision, and internal controls; ii) development of risk management methodologies with specific focus on non-performing credit portfolios (iii) operationalization of the regional Deposit Guarantee Fund (FOGADAC); and iv) capacity building for the staff of the Banking Supervision Department (BSD). Although the recent BCP assessment does not identify migration to Basel 2 and 3 as a priority for the COBAC, the project could potentially finance preparatory studies to facilitate the complex migration to the new standards.

**The project will support the COBAC with the implementation of key MFI supervision activities.** The MFI sector plays a significant role in the economy of many CEMAC member countries in particular Cameroon, Gabon and Congo. Through the adoption of new regulation, the regulator is aiming at consolidating the sector by mandating the small MFIs either to affiliate to a network or to exit the market and by pushing for mergers between the medium and largest ones. This has allowed a reduction in the number of MFIs. In practice, the COBAC lacks the HR means and the IT tools to effectively supervise the MFI sector. With only 14 staff that are based in Libreville to cover the supervision of more than 800 MFIs, innovative, risk-based methods must be developed to allow the COBAC to effectively supervise the sector including relaying on local authorities for the day-to-day aspects of the supervision. The regulator has also concerns that, due to poor supervision, the MFI sector could be used to finance illicit activities taking into consideration the increase of terrorist movements in the region. This component will finance the following activities: i) technical assistance for the review and dissemination of new MFI-related risk-based regulations ; ii) capacity building for the COBAC staff on on-site and off-site supervision including AML/CFT, and resolution of MFIs; iii) implementation of early warning systems for MFIs; iv) implementation support of a new IT solution (SPECTRA) recently procured by the COBAC for the supervision of

<sup>5</sup> BCP Assessment summary: (<https://www.imf.org/external/pubs/ft/scr/2016/cr16106.pdf>)





MFIs; v) feasibility study for a joint supervisory approach of MFIs between local and regional authorities and technical assistance to regional and local authorities for the implementation of any joint measures to be agreed upon. The activities under i) and ii) above will build on the results of an ongoing small technical assistance project (about USD 132K) that has been recently granted by FIRST to help COBAC review and disseminate the draft MFI regulations that are currently in process of being approved and to provide some initial training on MFI supervision to its staff. In addition to the abovementioned activities, since the MFI sector in the CEMAC region does not have a deposit guarantee scheme, this component will finance a feasibility study for such an instrument. The study will cover the following topics: diagnostic of the sector, legal requirements and key potential parameters of the scheme (coverage, cost and procedures).

**The project will support the strengthening of the capacities of local MFIs to build trust in the system and attract more users.** The MFIs operating in the region do not have the resources to produce reliable financial data on their performance. This poses serious problems for the COBAC, as financial data filed by the MFIs are in many instances inaccurate and therefore do not provide a clear picture of their financial health. To complement the previous MFI supervisory component (paragraph 19), the project will provide MFIs with instruments and capacity building opportunities. A private sector association or firm operating across the region will have to be identified to deliver this program. The project will finance i) the development of accounting software for MFIs including implementation support; ii) management training to improve MFI performance and iii) capacity building on key issues including loan administration, internal controls and risk management.

## **Component 2: Strengthening the Financial Inclusion Mandate of BEAC and COBAC (US\$ 7 million)**

### **Sub-Component 2.1. Payment systems infrastructure and oversight**

**The current infrastructure of payment systems in CEMAC is obsolete and outdated which poses several risks.** BEAC's central depository (CRCT) needs to be upgraded, as it is entirely manually operated being exposed to a high operating risk. Its procedures do not provide for delivery versus payment, whereas monetary policy operations backed by securities are developing. The absence of automation in the CRCT also represents a risk for the RTGS system for the provision of intraday liquidity. For what concerns the oversight function of the Central Bank, approach is not in line with best practices and resources are limited. Oversight by the Central Bank is based on an institutional approach determined by the nature of the regulated entity (systems operated by the BEAC or issuer of electronic money), and not on a functional approach that would cover relevant aspects of the regional payments system such as financial market infrastructures and the payment instruments and services. BEAC's oversight function lacks adequate equipment (e.g., statistical database) and human resources, and is not supported by a framework for cooperation with other pertinent authorities (telecommunications regulatory authorities) and with payments market participants. In line with the recommendations of the 2015 FSAP, the project will support the following activities: i) 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); (ii) development of a retail payments strategy, with a focus on both access to a transaction account and usage of electronic transactions (large volume recurrent payment streams will be a key component); (iii) activities to increase acceptance of electronic payments (incentives to merchants to accept electronic payments in cooperation with the trade & fiscal administrations; development of the acceptance infrastructure (ATM & POS), with a focus on



interoperability); (iv): strengthening BEAC's oversight function making oversight based on a functional approach covering all aspects of the regional payments system, the financial market infrastructures, and the payment instruments and services including the monitoring and handling of fraud and customers' complaints related to electronic payments.

**Within the context of updating the legal and regulatory framework, the project will also support the update of the licensing and supervisory framework for mobile payments operators, to create a safer, clearer and more stable framework to build confidence in the system and attract more users.** During the last three years, the BEAC has granted 19 licenses to mobile payment operators. Nevertheless, the BEAC and COBAC do not have the means to effectively supervise these new operators nor an appropriate framework exists. Many frauds related to mobile payment systems have taken place over the last couple of years, the most recent in February 2017 which amounted to close to 1.5 billion FCFA in losses for the users.<sup>[1]</sup> Both the BEAC and COBAC have not been able to react effectively to address these problems due to the lack of adequate legal framework and technical capacity of the supervisory staff. Further, there is no formal complaints mechanisms for consumers to seek redress. The regulator has also concerns that, due to poor supervision, the mobile payment sector could be exposed to ML/FT risks. A better supervised payment sector will generate an environment of confidence for the users. This could increase the number of users and ultimately contribute to increased, sustainable and stable financial inclusion. The project will support the following activities: i) development and modernization of the regulatory framework applicable to mobile payment operators, including measures to protect consumers' funds and AML/CFT measures; ii) development of specific supervision methodologies for mobile payment operators in coordination with the COBAC including AML/CFT; iii) capacity building of COBAC and BEAC staff on best practices in mobile payments supervision.

### **Sub-Component 2.2. Promotion of stable and sustainable financial inclusion**

**At present the regional regulator/supervisor does not possess adequate means to properly collect data from financial institutions, monitor progress in terms of financial access and financial inclusion.** As reflected in the FSAP, the COBAC and BEAC lack the technological means and resources to adequately monitor key performance indicators of financial institutions; further they lack data to monitor the number of access points, points of services, agents. This makes it difficult to properly supervise financial institutions, develop a risk-based approach for both prudential and market supervision as well as to develop early warning systems. Additionally, the lack of supply-side data on access points, agents, number of accounts, products, and services, does not allow to monitor progress in terms of financial inclusion nor to identify key gaps/needs. The project will support the development and financing of the relevant software and databases to inform policy development and sequencing that enables and promotes stable and sustainable financial inclusion. This will also complement Sub-Component 1.2, as well as additional technical assistance to reform the microfinance sector already being provided with the World Bank support, by providing a means by which to measure and monitor market reaction in response to banking and microfinance sector regulatory and supervisory changes. Further, the tools to monitor application of the forthcoming market conduct requirement, including monitor data on complaints, will ensure the application of such requirements which will assist in creating trust in the formal financial sector. With improved financial inclusion data, including data on complaints, subsequently policy measures can be undertaken, tailored to the specific needs/gaps identified and underpinned by concrete, measurable, and verifiable targets.

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<sup>[1]</sup> Jeune Afrique : <http://www.jeuneafrique.com/404469/economie/gabon-bgfi-bank-secouee-fraude-massive-aux-cartes-visa-prepayees/>



Similarly, the region lacks data on the demand side to identify consumers' financial needs. This situation not only prevents to adequately measure financial inclusion but it also does not permit the development and promotion of customer-centric innovative products. The project will support the roll out of selected demand-side survey to identify consumers' financial needs, habits and barriers preventing them from accessing financial services (lack of ID, distance, religion, lack of financial literacy or capability). Based on the findings of these survey, an innovation lab will be supported by the project to pilot selected innovative products responding to the identified consumers' financial needs. The development of products tailored to consumers' financial needs will enable further shift towards formal financial services.

Finally, while countries in the region have adopted national strategies and policies on financial inclusion, there is no such instrument at the regional level. The project will support the development of an overarching regional financial inclusion strategy to develop targets and objectives and a corresponding prioritized and detailed action plan to be implemented by the regional authorities to catalyze an increase in financial access and inclusion in the region. The strategy will be informed by the data collected with the above-mentioned tools and be formulated on a consultative basis. This will help in increasing financial inclusion by helping to ensure that actions are implemented in a sequenced and prioritized manner with adequate resources allocated, appropriate leadership and buy-in across the public and private sectors.

**Component 3: Strengthening financial integrity in the CEMAC region by supporting the GABAC to carry out its mandate (US\$ 3 million).**

**Sub-component 3.1. Launch the 2<sup>nd</sup> round of mutual evaluations of member states' AML/CFT regimes**

Having the capacity to follow the efforts carried out by member states to comply with international standards through the mutual evaluation and follow up process is a core function of the GABAC. The FATF Recommendations and its assessment methodology have been revised respectively in 2012 and 2013. Therefore, the GABAC needs to launch a new round of mutual evaluations to support states in implementing the revised standards. The project will help the GABAC in assessing level of compliance of member states' AML/CFT regimes against the revised international standards by supporting i) the development of a pool of GABAC assessors under the revised methodology; ii) the implementation of the GABAC's mutual evaluation calendar; and iii) the implementation of the GABAC follow up process as part of meetings of the GABAC Technical Commission meetings (twice a year).

**Sub-component 3.2: Implementation of technical assistance activities for member states**

The revised international standards (i.e. FATF Rec. 1) place an 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. The project will help member states i) carry out national assessment of their ML/FT risks and develop risk-based AML/CFT action plans to mitigate the risks identified; ii) organize training sessions to disseminate the revised CEMAC AML/CFT Regulation and enhancing levels of compliance with AML/CFT requirements in sectors that are identified by domestic risk assessments as most vulnerable to ML/FT; iii) strengthen capacity of domestic national intelligence units (FIU), 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 iv) improve AML/CFT policy and operational coordination and cooperation at the regional level among domestic AML/CFT other stakeholders in the CEMAC, as well as between domestic AML/CFT stakeholders and regional bodies (BEAC, COBAC, etc.).



**Sub-component 3.3: Preparation of typology exercises of ML/FT trends and methods in the CEMAC region**

The FATF and its associated members carry out research and studies on the technics, trends, and modus operandi of ML/FT in a 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 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 financial intelligence units 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.

**Component 4: Project implementation and Impact Evaluation (US\$ 4 million)**

The project will support the project implementation’s cost. This component will finance the operational costs of the regional Project Implementation Unit (PIU) including: technical assistance, coordination, procurement, financial management, communications and M&E supervision.

**SAFEGUARDS**

**A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

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

**B. Borrower’s Institutional Capacity for Safeguard Policies**

NA

**C. 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

**D. 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

### **E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 02, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

NA

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**APPROVAL**

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