

BANQUE CENTRALE DU CONGO

**PRESENTATION DES DEVELOPPEMENTS RECENTS
INTERVENUS DANS L'ENVIRONNEMENT FINANCIER DE LA
REPUBLIQUE DEMOCRATIQUE DU CONGO**

**15^{ème} assemblée Annuelle du Comité des Superviseurs de banques de
l'Afrique de l'Ouest et du centre**

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I. BRIEF OVERVIEW OF THE ECONOMIC ENVIRONMENT OF THE DRC

Since the 14th Annual Assembly of C.S.W.C.A.B held at Banjul in October 2008, the economic situation in DRC has undergone two phases:

- Disruption of the macroeconomic environment followed by a decline in economic activity in 2009, due to the persisting effects of the global financial crisis of 2008
- Relative macroeconomic stability, attributable to the pervasive effects of the international financial and economic crisis combined with an upturn in economic activity observed in the first quarter of 2010 (with a 4.7% growth rate) following the resumption of such activities in the mining sector, driven by soaring metal prices on the world market.

Actually, the following behaviour was noted at 31 December 2009 and 30 June 2010 with regard to some macroeconomic indicators:

	31 Dec. 2008	31 Dec. 2009	30 June 2010
Inflation rate (in %)	27.57%	53.44%	8.05%
GDP growth rate (in %)	6.2%	2.8%	4.7%*
International stock reserves	USD 78 550 million	USD 1 002 790 million	USD 1 078 670 million
USD/CDF exchange rate	CDF 639 320	CDF 903 700	CDF 901 595 500
Leading rate	40%	70%	42%
Cash operations balance	CDF -28496 220 million	CDF 68 597 870 million	CDF 212 521 140 million

Sources: Weekly summary of statistic information at 28 May 2010

(*) growth rate achieved at the end of March 2010

With respect to the banking sector situation, the following trends must be noted during the period considered:

In USD million

	31 Dec. 2008	31 Dec. 2009	30 June 2010
Total balance sheet	1 691 330	1 881 630	2 122 350
Volume of deposits	1 036 440	1 183 160	1 271 490
Net volume of credits	835 070	803 910	884 700
Prudential capital	133 660	208 400	265 570
Net banking income	188 080	194 010	121 670

II. EVOLUTION OF THE BANKING LANDSCAPE AND REGULATIONS

The streamlining of the Congolese banking system, launched in 1998 and being fine tuned, has particularly enable the liquidation of establishments whose financial position was irreparably compromised, the consolidation of banks considered redeemable and the creation of an enabling environment for the establishment of banks newly approved and controlled on the basis of a new legal and statutory provision.

The Central Bank of Congo is currently striving to consolidate stability in the banking system thanks to an improvement in the quality of financial and accounting information by adopting IFRS international accounting norms and upgrading the statutory and prudential mechanism by intensifying prudential supervision with a view most particularly to conform to the 25 core principles ensuring an effective control of the Basel Committee.

II.1. Evolution of the banking landscape

At 30 March 2010, the Congolese financial system was made up of:

- 23 approved commercial banks including 19 in activity with more or less 104 ATMs serving close to 400 000 accounts open to the public;
- 1 specialised financial institution;
- 1 savings fund;
- 112 savings and credit cooperatives;
- 17 microfinance institutions;
- 31 financial messaging;
- 15 exchange office.

Despite this evolution, the Democratic Republic of Congo with a surface area of 2 345 000km² and a population estimated at more than 60 million inhabitants is still under-bankable due to a banking penetration rate estimated at less than 1%.

II.2. Evolution of regulations

From 2008 to date, the DRC banking regulations have undergone considerable changes:

a) Statutory minimum capital

From January 2010, the statutory minimum capital was raised from USD 5 million to USD 10 million in order to enhance the solvency of taxpaying establishments as well as their ability to intervene in financing the economy.

b) Building governance in credit establishments

For the purpose of ensuring the security and solidity of credit establishments, with the exclusion of difficulties likely to be caused by a deficient governance and in the face of the need to protect the funds of depositors as well as cultivate and maintain public confidence in the financial system, the Central Bank of Congo published Instruction No 21 on Credit Establishments, which enacted first-rate practices regarding corporate governance in credit establishments. This instrument clarified relations between shareholders, the Board of Directors, management and other stakeholders.

c) Expanding risks management

In order to boost prudential and effective management of banking risks, the Central Bank of Congo adopted, under Instruction No 22 on credit establishments, a regulation compelling credit establishments to put in place a risk management mechanism clearly defined and approved by competent statutory bodies, adapted to the identification, analysis, appraisal, supervision and control of each significant risk (notably risk relating to credit, market, interest rate, liquidity as well as operational risk).

d) Accounting frame of credit establishments

The new Accounting Guide for Credit Establishments elaborated with the assistance of the 'Conseil Permanent de la Comptabilité in Congo, the banking profession and the 'Institut des Réviseurs Comptables' entered into force as from the beginning of this year, in order to ensure standardisation of the financial information of the financial system, proper registration of transactions as well as provision of relevant financial statements.

In this light and in a bid to understand relevant financial information for a more effective assessment, the Central Bank of Congo and the 'Association Congolaise des Banques' invested in a programme aimed at evolving towards IFRS international norms of the banking sector and that of microfinance by 2012.

e) Projects being finalised

The Central Bank of Congo is about to complete its statutory arsenal with the putting in place of a quotation system for credit establishments and new instructions under finalisation centred on the business continuity plan in credit establishments, matrix of disciplinary sanctions as well as monitoring banks in difficult positions.

Furthermore, with the assistance of DRC partners of development, other reforms were initiated and are underway to make way for the advent of a deposit insurance mechanism, a lease credit regulation or leasing as well as electronic money.

II.3. New products and services

For purposes of modernising the payment system, banks operating in the Democratic Republic of Congo introduced new products and services in order to respond, under the best of conditions, customer needs and this with regard to technological progress. This includes the introduction of new payment instruments among other electronic payment systems

III. SIGNIFICANT DEVELOPMENTS IN SUPERVISION

As part of restructuring the Central Bank of Congo started fiscal year 2009, the body responsible for banking supervision was reorganized into a Department of Supervision of Financial Intermediaries, including three (3) Sub-branches, and nine (9) Services. Among the major innovations, is institution of a regular monitoring function, macro-prudential supervision of the financial system and transfer within the Department of Risk Centralisation and Balance Sheets.

As concerns changes recorded in terms of supervision, it should be pointed out that the evolution from control of documents towards a genuine regular control, beyond the simple financial analysis of accounting statements and other periodic statements provided by interested establishments for the purpose of ensuring compliance with these rules applicable to them.

Within this framework and in order to benefit from the advantages of technological development, the Issuing Institution evolved towards computerizing the monitoring of the financial system using the Bank Supervision Application Software (BSA), designed and developed by Central Banks of SADC member countries.

As progress made, mention can be made of:

- Constitution of a database on credit institutions in terms of permanent records on electronic files;
- The electronic receipt of data from approved banks through the remote electronic transmission system;
- The ability to process data collected for validation after verifying their consistency and accuracy;
- The tendency to conduct faster analysis of taxpaying financial institutions following outputs generated automatically.

At the level of spot control of liable institutions, recent progress recorded is as follows:

- ❖ adoption of spot checks centred on risk-based supervision;
- ❖ elaboration of a multi-year control planning (covering three years) and based on sensibilities or risks;

- ❖ putting in place a more refined spot control methodology with the prior definition of the mission's terms of reference and the standard report scheme to be produced;
- ❖ equipment of supervisors with laptops to enable them work unaided.

IV. IMPLEMENTING BASEL II- SELF-EVALUATION

In the process of implementing Basel II, the Central Bank of Congo deemed it necessary to first of all set rules and practices of banking supervision in relation to the 25 Basel Core Principles.

In the absence of a Financial Sector Assessment (PSF) programme, the BCC conducted self-assessment of its system of banking supervision whose initial conclusions drawn with the support of the IMF technical assistance mission led to the development of an action plan for supervision of financial intermediaries. This plan is being implemented with the technical assistance of the IMF and objectives include (i) completing the reform of legal and regulatory framework for banking supervision in accordance with international standards, (ii) strengthen the operational capacity of the banking supervision body, including that of its staff, (iii) strengthen the scrutiny of documents by introducing new tools and enhancing quality control of data reported by banks and (iv) strengthen the operational capacity to conduct investigations.

In general, the following improvements emerge:

- Revision of the Banking Act to include particular provisions on the protection of supervisors in the exercise of their functions;
- preparation of regulations on corporate governance and risk management;
- operational independence of banking supervision;
- Formalization of relations with counterpart supervisory bodies;
- Strengthening of ongoing monitoring by multiplying meetings and regular discussions with bankers and auditors;
- Training plan tailored to suit the needs of supervisors, (capacity building);
- Establishment of an early warning system for banks failure;
- Improved methodologies in terms of internal control on documents and on the spot.

Finally, as concerns the conclusions, self-evaluation, the Central Bank of Congo mostly considers:

- Taking into account the principles of Pillars 2 and 3 resulting in the current Basel 1;
- Evaluation of basic infrastructure in concert with the banking industry before deciding on the approaches to be adopted under capital requirements for credit, operational and market risks (Pillar 1) and set a schedule for implementation.

V. BRIEF OVERVIEW OF THE MICROFINANCE SECTOR

The microfinance sector in the Democratic Republic of Congo is composed of two types of structures, namely: mutual (the Cooperative Savings and Credit, COOPEC in short) and non-mutual (microfinance institutions, MFIs, abbreviated MFI).

To date, the Central Bank of Congo has approved financial institutions to close 131 of which 112 COOPECs and 17 MFIs.

Evolution of regulations

As a reminder, by creating the Sub-Department of Microfinance (September 2000), CCB continued including the following objectives: (i) meeting the challenge of under-banking in the country, (ii) ensuring quality financial services to households and low-income micro-entrepreneurs and, (iii) gradually absorb the activities of the informal sector.

Regarding the legal framework governing this sector, it is currently composed of three legal instruments and a statutory instrument. This is the case of (i) Law No. 005/2002 of 7 May 2002 on the establishment, organization and operation of the Central Bank of Congo, which in its Article 6, entrusts the latter with the power to control the activity of microfinance institutions, (ii) Law No. 002/2002 of 2 February 2002 laying down detailed rules for Cooperatives Savings and Credit and (iii) Instruction No. 1 on microfinance institutions of September 12, 2003, as amended on December 18, 2005.

It should be pointed out that, under its Microfinance Action Plan, the

BCC has started the process of drafting a special law for MFIs, by conducting an inventory of local financial institutions across the national territory. It should be noted that this inventory is an essential step in the process of drafting the Act specific to MFIs as well as in building a reliable database and updateable on the microfinance sector.

Another important work done so far is the development of the Chart of Accounts for Cooperative Savings and Credit and Microfinance Institutions, with the assistance of the 'Conseil Permanent de la Comptabilité' in Congo, Audit Firms, the 'Institut des Réviseurs Comptable' and representatives of the profession.

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Launched in March 2007, the "Microfinance Support Sector Programme, PSMIF, has the advantage of creating a synergy between the various stakeholders and coordinating the allocation of resources for efficiency and consistency in the action of donors.

IV. CONCLUSION

As a whole, supervision of financial intermediaries conducted by the Central Bank of Congo DRC is improving thanks to capacity building activities, aimed at ensuring compliance with international standards and contributing to the stability and soundness of financial system.