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SITUATION OF THE BANKING SYSTEM AND TREND OF THE SUPERVISION MECHANISM IN THE CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY

The Central African Economic and Monetary Community (CEMAC) comprise six countries namely Cameroon, Congo, Gabon, Equatorial Guinea, Central African Republic and Chad. Banking supervision within CEMAC is ensured by the Central African Banking Commission (COBAC), which was entrusted the key mission of supervising the operating conditions of the credit institutions, ensuring the quality of their financial situation and ensuring compliance with ethical rules of the profession.

After a brief overview of the economic environment in which credit institutions have evolved in 2009 and prospects for 2010, this report shows the activity of banks in CEMAC and the evolution of the supervision system of the Central African Banking Commission in 2009/2010.

I- BREF OVERVIEW OF THE ECONOMIC ENVIRONMENT OF CEMAC IN 2009 AND PROSPECTS FOR 2010

According to estimates of BEAC, in 2009, CEMAC's macroeconomic situation has been marked by a sharp slowdown in economic activity, with real GDP growth of 2%, against 4% in 2008. Inflationary pressure slightly faded, with an annual average inflation rate of that decreased from 5.9% in 2008 to 4.3% at 31 December 2009. The budget surplus, a commitment basis, excluding grants, fell sharply, to GDP 0.3%, against 11.5% in 2008. Similarly, the external current account balance deteriorated sharply, recording a deficit of GDP 8.5% against a surplus of 4.6% a year earlier. At the monetary level, foreign currency coverage stood at 102.27%, reflecting, among other things, a decline of nearly 10% of net foreign assets of the monetary system. The net liability position of States eroded significantly (-35.3%) while loans to the economy rose by 5.9%. Consequently, money supply grew by 6.6% over one year.

The real growth rate of oil sector dropped significantly, falling from +3.7% in 2008 to 0.7% in 2009. At the same time, that of the non-oil sector slowed to +2.4% against 4.1% a year earlier. The contribution of the oil sector to growth consequently fell back to 0.1 (against 0.7 in 2008), while that of the non-oil sector stood at 1.9 points (against 3.3 points a year earlier).

By country, this result stems from the slowdown in activity observed in Equatorial Guinea (+4.6% against 15.2% in 2008), in Cameroon (+2% against 3.7% a year earlier), in the Central African Republic (+1.2% against +2% in 2008), in Gabon (-0.2% against 2% a year earlier) and in Chad (-1.4% as in 2008). This weakening of activity, however, has been partially mitigated by the consolidation of economic growth in Congo (+6.4% against +5.2% in 2008).

In sum, during the year 2009, CEMAC was heavily affected by second-round effects of the global financial crisis. These effects were felt, among others, by ***i***) the sharp decline in economic activity including the fall in forestry and mining production, ***ii***) contraction of budgetary resources including original oil, ***iii***) fall in net foreign assets and ***iv***) severe crisis in the export sectors. For example, households living in mining and logging areas suffered significant job losses, with consequent significant loss of income.

With regard to 2010, CEMAC economies improved significantly, as compared to the dynamism of the non-oil sector. This trend seemed to have been buoyed by the robust domestic demand due primarily to the frequent major public works and new investment in both the public and private sector, particularly as regards road, port, sports, energy, education, health, agriculture and oil infrastructure.

The CEMAC macroeconomic environment is expected to be characterized in 2010 by:

- ✓ **A stronger economic growth, with real GDP growth projected at 4.4% against 2% in 2009 mainly in connection with the behaviour of the non-oil sector, particularly major infrastructure projects planned under the Finance Laws of Member States for 2010 to boost the activities involving Buildings and Public Works, and the resumption of private investment** in the oil sector. Thus, the GDP non-oil sector would grow by 4.8% after rising by 2.4% in 2009 while that of oil would rise 2.8% after 0.7% a year earlier;

- ✓ ***A* slight upturn in inflationary pressure** at 4.5% against 4.3% in 2009, against a backdrop world oil price hikes and execution of major public works in all countries;

- ✓ ***Improved fiscal balance*, commitment basis, excluding grants, showing an excess of GDP 4.8 %**, against +0.3 % in 2009, in conjunction with the significant rise in budget revenue namely oil, combined with a rationalization of public expenditure;

- ✓ ***A further deterioration of the current foreign account balance to*** GDP**-6.5%,** though down as against the GDP 8.5% deficit recorded in 2009. Recovery of the surplus trade balance owing in particular to high crude oil sales would be offset by rising deficits in the services and income balance;

- ✓ ***An increase in money supply by 10.9%,*** primarily reflecting an improvement in net foreign assets of the monetary system by 23.6%, a consolidation of the net liabilities of the States by about 43% and 8% increase in credits to the economy. As a whole, **the foreign currency coverage rate should stabilise at around 102%** at the end of December 2010.

Ultimately, economic and financial development within CEMAC in 2009 was marked by a decline in the macroeconomic performance of countries in the sub-region, mainly because of the impact of economic crisis on international financial and export sectors (oil, mining and forestry). However, the Sub-region has shown strong resilience in the face of this crisis because of measures taken by authorities in the fiscal, monetary and banking areas as well as major achievements realized in macroeconomic reforms in recent years.

For 2010, hopes lie on an upsurge in growth within CEMAC, in connection with global growth recovery, increased construction of public infrastructure, recovery of oil and gas production and launch of major mineral exploitation projects. One therefore expects a positive impact on the evolution of banking within the sub-region.

II- SITUATION OF THE BANKING SYSTEM OF CEMAC AND EVOLUTION OF THE REGULATION APPLICABLE TO CREDIT ESTABLISHMENTS

1. Evolution the banking environment

At 30 April 2010, the banking system of the Central African Economic and Monetary Community (CEMAC) comprises 16 banks, including 44 active financial institutions. The 44 banks are divided as follows: Cameroon (13 banks); Central African Republic (four banks); Congo (6 banks); Gabon (9 banks); Equatorial Guinea (4 banks); and Chad (8 banks).

Evolution of the number of banks operational

	2007	*2008*	*2009*	*April 2010*
Cameroon	12	13	13	13
CAR	4	4	4	4
Congo	5	6	6	6
Gabon	7	7	9	9
Equatorial Guinea	4	4	4	4
Chad	7	7	8	8
TOTAL	39	41	44	44

2. Situation of the banking system at the end of April 2010

- **Evolution of the activity and performance of banks**

At 30 April 2010, the total combined balance sheet of all banks within CEMAC stood at $ 5 747 million against 5 492 000 million twelve months earlier, up by 4.7%. The customer deposits grew by 4.8% in annual variation, stabilizing at $ 5 025 000 million against 4 793 000 million. During the period, gross outstanding customer credits rose by 1.6% compared to April 2009. It amounted to 3 025 000 million against 2 977 000 million. Net appropriations stood at 2 759 000 million against 2 715 000 million twelve months earlier.

Outstanding provisions for the depreciation of customer accounts stood at 266 000 million against 260 000 million last year on the same date, an increase of 2.3%. On their part, nonperforming loans represent 11.4% of gross loans against 9.8% a year earlier. They reached 344 000 million against 291 million. The coverage ratio of nonperforming loans by provisions stood at 77.3% against 89.3% in April 2009. However, the apparent quality of the portfolio remains significant.

Evolution of balance sheet (in million CFA francs)

CEMAC	30/04/2008	30/04/2009	31/10/2009	31/01/2010	31/03/2010	30/04/2010
CUSTOMER DEPOSITS	4 315 750	4 792 592	5 008 510	5 082 774	5 080 738	5 024 639
Gross credits	2 437 156	2 976 550	3 121 553	3 183 047	3 099 280	3 025 192
Nonperforming debts	264 699	291 396	333 514	328 072	333 021	343 985
Provisions for depreciation of customer accounts	233 380	260 330	255 999	264 337	248 221	266 374
NET CREDITS	2 203 776	2 716 220	2 865 554	2 918 710	2 851 059	2 758 818
CAPITAL	571 610	699 223	725 636	753 740	736 574	694 810
FIXED ASSETS	463 006	400 477	440 316	447 957	426 299	428 885
OTHER NET ITEMS	38 700	-225 148	-1 628	35 422	35 453	27 929
EXCESS/CASH DEFICIT	2 259 278	2 419 953	2 430 918	2 505 597	2 574 821	2 557 929
TOTAL BALANCE SHEET	4 926 060	5 491 815	5 734 146	5 871 936	5 852 765	5 747 378

Capital stand at 695 000 million against 699 000 million, a slight decrease of 0.7% from a year earlier. Fixed assets stand at 429 000 million in April 2010 as against 400 000 million in April 2009, an increase of 7.3%.

Cash surplus stands at 2 558 000 million against 2 420 000 million in 2009, up by 5.7%.

For fiscal year 2009, the net income of CEMAC banks showed a sharp fall of 75.7% as compared to the level achieved in 2008. It leveled at 58 000 million at 31 December 2009 against nearly 100 000 million released a year earlier.

Key significant trends are as follows:

- With the exception of Cameroon, five other banking areas generate a net global excess income, with the best performance in relative terms realised by Equatorial Guinea, showing a net benefit in its banks rising from 14.4% at 15 500 million. All the other areas record a slowdown in net income. This slowdown is more significant in Chad (-92.3% at 487 million) and in CAR (-19% at 2 000 million). The net income generated by Congo stood at 13 700 million (-17.8%) and that of Gabon at 28 900 million (-16.4%);
- Nine banks declared net losses (they were seven in 2008) for an accumulated amount of 48 500 million against 10 500 million in 2008;
- 33 beneficiary banks earned a total amount of 103 500 million.

Analysis of components of net banking income shows a severe decline in the cash transactions margin, which amounts to 16 400 million against 39 900 million in 2008, reflecting a lower pay rate for investment banks in the Central Bank and with counterparties located outside the area. Unlike 2008, transactions with customers took precedence over the various operations in contributing to composite NBI. Actually, customer operations margin stood at 233 300 million in 2009, up by 18.9%, while the margin on sundry operations felled by 3.6% to settle at 193 900 million. As for the margin on financial operations, it decreased by 12.9% and leveled at 14 100 million. Similarly, the margin on lease credit operations recorded a slight slowdown of 3.2% to level at 2.9 million. Due to the impact of these evolutions, the net banking income witnessed no significant change (+0.9%). It stood at 460 800 million at the end fiscal year 2009 against 456 700 million at 31 December 2008.

Overheads, estimated at 252 300 million in 2009, grew by 13.9%. They account for 48.1% of net banking income, on a downward trend of 44.4% in 2008. Personnel costs (104 400 million) increasing by 8.3%. These changes associated with increased ancillary revenue ($ 10 300 million in 2008 to 15 900 000 000) rekindle gross operating profit to 224 500 million against 245 400 million in 2008, down by 8.4%.

Net appropriations for depreciation were up by 37.4% at 30 200 million in 2009 while those relating to provisions amounted to 95 300 million (+36.7%) due to the requirement to constitute adequate provisions imposed especially on banks under provisional administration.

With net profits amounting to 0.86% of total assets, return on assets purchased by banks within CEMAC in 2009 dipped by half. This yield stood at 1.7% in the previous year. This output was 1.7% in the past year.

As for return on capital invested, it is down by 12 points from the previous year. Thus, the net income account for 11.4% of banks' capital, against 23.3% at 31 December 2008 due to the sharp rise in equity following the decision of the Banking Commission to raise the level of minimum capital .

As a result of the developments described above, the current income, which is obtained by deducting from the Gross Operating Net allocation to provisions and net losses on bad loans, declined from 30.2% to 110 100 million at 31 December 2009. The net income of banks within CEMAC amounted to 54 800 million.

Net income

CEMAC – (in CFA million F)	**2008**	**GNP%**	**2009**	**GNP%**
Cash operations margin	39 967	8.75%	16 419	3.56%
Financial operations margin	16 242	3.56%	14 132	3.07%
Customer operations margin	196 142	42.95%	233 355	50.64%
Sundry operations margin	201 290	44.07%	193 971	42.09%
Lease credit operations margin	3 073	0.67%	2 973	0.65%
Net banking income	456 714	100%	460 850	**100%**
Net operating income	245 442		224 476	

Current income	157 671		110 068	
Net income	99 947		54 815	
Net operating ratio	49.42%		55.06%	
Return On Assets	1.69%		0.86%	
Return On Equity	23.29%		11.4%	

- **Respect of prudential norms**

At the level of prudential analysis, out of 43 banks featuring within the scope of analysis against 40 banks in the previous year on the same date:

- 40 banks conform to provisons on the representation of minimum capital (against 37 banks last year at the same date);
- solvency, 36 banks externalise a risks coverage ratio weighted by equity capital higher or equal to the minimum of 8%, (against 33 banks last year at same date);
- In terms of the risks division norms, 38 banks managed to respect the overall limit by staying eight times below the net worth the risk amounts weighted higher than 15% of the said equity capital (against 36 banks last year at the same date) and 36 banks conform to the individual limit by not entertaining weighted risks incurred on the same beneficiary exceeding 45% of the net equity capital (against 35 banks last year at the same);
- As regards the coverage of fixed assets by capital resources, 35 banks recorded a ratio superior or equal to the minimum of 100% (against 31 banks last year at the same);
- As regards the liquidity ratio, availability on demand or in less than a month is superior or equal to the statutory minimum of the 100% required just like for 40 banks (against 39 banks the previous year at the same date);
- As for respect of the long term transformation ratio, 37 banks managed to fund close to 50% at least (statutory minimum) their less than five years transactions of remaining life with capital (against 34 banks in conformity with the previous year at the same date);
- - Finally, 33 banks keep the total exposure to the shareholders, administrators, executives and the staff below the legal ceiling of 15% of the net capital (the number of banks in line was the same last year at the same date).

Number of banks in conformity with the prudential norms

Prudential norm	30/04/2008	30/04/2009	31/10/2009	31/01/2010	31/03/2010	30/04/2010
Minimum capital	34	37	37	39	36	40
Risks coverage	32	33	32	32	33	36
Global risk ceiling	33	36	35	38	35	38
Individual risks ceiling	15	35	36	37	34	36
Fixed assets coverage	24	31	30	31	31	35
Liquidity ratio	36	39	36	39	36	40
Transformation ratio	31	34	33	37	33	37
Commitments on the related	29	33	34	34	33	33
Capital adequacy	15	31	34	34	32	33
Total number of banks	38	40	40	42	39	43

The prudential situation has witnessed a global relative improvement. Thus, 33 banks have sufficient net capital to meet all prudential norms based on this aggregate (against 31 banks last year at the same date). The prudential norm respected by the greatest number of establishments is related to the liquidity ratio. However, the commitment norm on the related constitutes that by which we find the largest number of banks wanting. **Positive evolution in the respect of prudential norms, namely risks division, can be attributed to the diligence of the regional supervisory body in recent years.**

As a whole, the trends observed in 2009 should rally in 2010 against a backdrop economic recovery in the sub-region.

Evolution of the SYSCO quotation

Number of banks listed	30/04/2008	30/04/2009	31/10/2009	31/01/2010	31/03/2010	30/04/2010
1 – solid financial situation	4	6	4	3	4	3
2 – Sound financial situation	23	25	24	23	20	21
3A –Slightly fragile financial situation	2	0	0	0	0	1
3B- Averagely fragile financial situation	2	0	2	4	1	3
3C – Highly fragile financial situation	1	1	1	1	2	2
4A – Critical financial situation	1	0	1	1	1	0
4B – Highly critical financial situation	1	2	1	1	1	1
Unlisted	4	5	6	8	9	13
Total number of banks	38	39	39	41	38	44
AVERAGE QUOTATION	2	2	2	2	2	2

3. Evolution in banking regulations

In 2006, the International Monetary Fund (IMF) and the World Bank jointly conducted a Financial Sector Assessment of the Community. Recommendations made at the conclusion of their work in view of promoting the stability and development of the financial sector concern four key themes. This concerns access to financial services, financial sector supervision, management of liquidity and plowing back budget surpluses and stability of the banking sector. Recommendations concerning the Banking Commission focused on its institutional independence, full implementation of existing regulations, capitalisation of banks, improvement of the sub-regional monitoring of the failure credit institutions and balanced development of the microfinance sector.

Meeting in an ordinary session, on 28 September 2007, the Banking Commission adopted a time schedule for the implementation of recommendations considered relevant. Among other actions, this time schedule includes a reform of banking regulations, particularly in terms of intensifying the capitalisation of banks, elaborating prudential rules while taking into account risks peculiar to real estate financing and long term credit, designing a cahrt of accounts for credit establishments of CEMAC in order to harmonise them with IFRS norms, of supervision as part of sub-regional supervision of the failure of credit establishments, development of a service system to monitor the financial position of microfinance institutions and implementing new banking supervision norms known as “Basel II”.

The milestones marked in 2008 and 2009 regarding the implementation of this extensive renovation work resulted in the adoption by the Ministerial Committee in September 2008 of two regulations:

- One, to change the allocation of jurisdiction to determine the category of credit institutions, determine their minimum capital, legal form and activities authorized;
- The other, corporate governance in credit establishments.

The exclusive and jurisdiction of the national monetary authority in setting the minimum capital of credit institutions as well as their category, legal status and authorized activities generate a disparity that hardly matches the desired objective of a sub-regional integration in economic, monetary and financial areas. With this in mind, the Banking Commission developed CEMAC regulations to harmonize all of this material.

The Regulation on Corporate Governance in credit institutions is designed to promote transparent management in banks.

Before being adopted by the Ministerial Committee, the two instruments won the support of all the Professional Associations of Credit Institutions (APEC) within CEMAC, to whom they were submitted for consultation and acceptance by the Board of Directors of the Bank of Central African States (BEAC).

In addition, the Banking Commission adopted and published COBAC Regulation R-2008/01 on the obligation by credit institutions to elaborate business progress plan. Some natural events (natural disaster, flood, earthquake, pandemic) or human (terrorist attack, cyber attack can have negative effects on the normal performance of activities of credit institutions. The occurrence of such events could overburden the ability of institutions to resume normal operations following a major operational disruption.

The instrument adopted is based on seven guiding principles defined by the Joint Forum of Basel Committee for Banking Supervision. It encourages credit institutions to take appropriate steps to ensure the continuity of their activities.

In addition, the Chairman of the Banking Commission published Instruction COBAC I-2008/01 to update the Collection, Operating and Restitution System to State Regulatory Banks (CERBER). Indeed, the new version of CERBER places greater emphasis on qualitative analysis.

In 2009, the reform of banking regulations continued including the adoption of the CEMAC Regulation authorizing COBAC to sign agreements with any control body and two COBAC Regulations to determe the minimum capital of credit institutions, for one, and fix the categories of credit institutions, their legal status and permitted activities for the other. These last two instruments are the logical continuation of the CEMAC Regulation granting jurisdiction to COBAC in this area. Thus, COBAC Regulation R-2009/01 sets the minimum capital requirement of credit for banks at 10 000 million for banks and 2 000 million for financial institutions. Similarly, the enforcement law of the CEMAC Regulations concerning Deposit Guarantee Fund was adopted. As for the Instruction on preliminary information, it subjects the appointment as a member of the Board of Directors of a credit institution to prior information from the Banking Commission.

Other work already started will continue. They relate to the establishment of a sub-regional framework to monitor the failure of credit establishments, adopt a chart of accounts for microfinance institutions and review various COBAC Regulations already in force, introduce a risk-based supervision and on consolidated basis.

III- IMPELEMENTING BASEL BASEL II

In 2003, the Banking Commission took the decision to implement Basel II in the Central African Economic and Monetary Community (CEMAC). To carry out this reform, two committees were established within the Secretariat General of the Central African Banking Commission:

- a **Technical Committee** in charge, among others, to prepare the reform, study the various proposals, perform tests, suggest areas of training and ensure the extension of the new device;

- a V**alidation Committee** that is responsible for reviewing and approving the work of the technical committee before submission to the Banking Commission.

Under the terms of reference of the reform developed by the Technical Committee, a number of actions have already been executed, namely:

- launching reflections leading to the revision of the regulatory mechanism for more consistency with the 25 principles for an Effective Banking Supervision (BCP);
- Training of all officials of the Secretariat General on issues related to the New Agreement (over the period 2005-2006);
- Circulating the complete document with the Basel II mechanism for credit institutions and the various Central Bank managements and national managements,
- Organizing a seminar in Libreville in November 2006 to raise the awareness of credit institutions executives. Taking advantage of this meeting, COBAC presented the guidelines set in the context of this reform.

Given the delay incurred in compliance with the prudential regulation in force with PCOs, findings of inspection reports indicating an unsatisfactory implementation of the regulation on internal controls and recommendations of recent assessments of COBAC by the IMF and World Bank (need to implement a number of prerequisites for implementing Basel II), the Central African Banking Commission was compelled to review the timetable originally adopted in 2003.

A new timetable was thus adopted in September 2007 with the main provision being the full implementation of Basel II in 2015.

Beyond these new guidelines, there was also created within the Secretariat General of COBAC a group commissioned to implement Basel II, which reports to the Technical Committee.

In 2008, the Group developed a questionnaire for banks and financial institutions in CEMAC in view of understanding the quality of their risk management systems and actions they have taken to ensure proper application of Basel II.

Examining the questionnaire revealed that credit institutions within CEMAC, for the most part, have a fair knowledge of the New Basel Agreement on equity capital. However, they do not yet have adapted tools. Some credit institutions have taken initiatives to strengthen their information systems and management of credit risks, while others have established internal rating systems, but are still not complying with Basel II.

In addition, all lending institutions have been invited to appoint a Basel II official for interfacing with the Group Authorised and follow all developments related to the implementation of Basel II on behalf of his institution.

Finally, to expedite the implementation of Basel II, the Secretariat General of the Central African Banking Commission is launching an international tender to recruit a consultant in this field.

IV- EVOLUTION OF THE MICROFINANCE SECTOR

A reflection on the development of the microfinance sector and its effective supervision was conducted by a group established within the Secretariat General of the Central African Banking Commission.

The work was based on the analysis of ten or more audit reports of category II microfinance institutions (MFIs) located mainly in Cameroon. This analysis highlighted the difficulties faced by the MFIs. The reflection was extended to the effectiveness of remediation and oversight generally implemented. Presented as a solution to the inadequacy of the Central African Banking Commission, the issue of sharing control of the MFI between it and the United States has also been explored.

The following findings and recommendations emerged:

1. CEMAC MFIs present diverse and varied outlooks

From the origin, the microfinance activity was conducted through njangis, cooperative societies and associations. Such entities pursue an essentially voluntary and common interest goal and operate in rural areas.

Later, the structures started aiming primarily for profit run by former bank employees. Since then, microfinance activity is regulated by the Regulation of 13 April 2002 to define conditions for the exercise and control of microfinance activity and prudential norms laid down by COBAC

2. Their recent evolution confirms their importance in CEMAC economies

Based on a statistical survey concluded late September 2008, the Secretariat General of the Central African Banking Commission identified 686 MFIs. These institutions have, to this date, collected CFAF 282 000 million in deposits and 140 000 million CFA distributed credits. The number of clients managed through 1 517 ATMs stood at 1 211 698 people.

The apparent quality of the financial situation of MFIs is evaluated through using criteria. This is the coverage of loans by deposits, the level of cash managed, the loss ratio commitments and coverage of nonperforming loans. On this basis, the coverage of loans by deposits is 201%, ensuring abundant liquidity in the sector. This abundant cash allows MFIs to offer various financial services to their members and clients.

3. Findings of the first spot surveys reveal significant weaknesses and disturbing financial reports

Findings of the initial surveys reveal a worrying situation generally characterized by poor governance, flawed management of risks, a perfectible organization and weak internal control. The external audit by the auditors also proves problematic. The external audited carried out by auditors is also wanting.

Given their limited financial, human and technical resources, MFIs have not taken yet grasp all the rules by which the basic assumption is to make available minimum standards of management.

Ignorance of sound practices in the areas listed above was considered as one of the main causes of difficulties faced by MFIs. There is need therefore to recall the three pillars on which MFIs must base their governance:

- Sufficient capital constituting the guarantee of the company vis-à-vis third parties and ensuring, in case of difficulties, the amortization of losses;

- Financial transparency which must guarantee the production of useful information to management and available to market operators;

- An effective internal and external assurance that information held by executives on the financial position, performance and risks is made availble to shareholders and market operators for decision making in relation to the overall objectives of the establishment.

V- FIGHTING AGAINST MONEY LAUNDERING AND THE FUNDING OF TERRORISM (LBC/FT)

1. Evolution of the statutory framework of LBC/FT

The implementation of the AML / CFT mechanism in the Central African Economic and Monetary Community (CEMAC) began with the solemn declaration of Heads of State of six countries in the region, signed on 14 December 2000, committing to possible measure to fight against money laundering in CEMAC member states. This statement was immediately followed by an additional Act establishing the Task Force against Money Laundering in Central Africa (GABAC).

CEMAC countries have common rules for the fight against money laundering and financing of terrorism (AML / CFT). This regulation is directly applicable in the six member states without being required to transpose it into national law. Regulation 01/03-CEMAC-UMAC on the prevention and suppression of money laundering and terrorist financing in Central Africa, adopted in April 2003, identifies the professions subject to these and their obligations. A model Decision on the Financial Investigation Agency (ANIF) was taken by the Ministerial Committee for implementing Articles 25 et al of Regulation No 01/03CEMAC/UMAC/CM. For its part, COBAC, in 2005, enacted the COBAC Regulation R-2005/01 relating to the diligence of institutions involved in the fight against money laundering and terrorist financing in Central Africa which is a regulation implementing the Community legislative framework designed specifically for credit institutions.

An evaluation of the AML / CFT of CEMAC carried out by the World Bank during the first quarter of 2006 revealed that, as part of the Financial Sector Assessment Programme (FSAP), the regional regulatory framework was generally satisfactory but implementing the mechanism remained embryonic because of lack of involvement of regulators and the low awareness of some liable occupations which were unaware of their obligations to AML / CFT.

Regulation No. 01/03-CEMAC-UMAC however, must be updated and revised in some respects to comply with the revised FATF recommendations: change the wording of Regulation No. 01/03-CEMAC-UMAC to remove ambiguities on Resolutions 1267 and 1373 of the UN Security Council exempting lawyers from making known their suspicions in case of judicial proceedings, adoption of a threshold for reporting cash transactions, corporate criminal liability, etc.

Regarding COBAC, amendments to COBAC Regulation R-2005/01 are minor since this instrument was developed after revision of the FATF recommendations. The updated instruments on issues such as the identification of effective beneficiaries, consideration of attempts at financing terrorism within the scope of the declaration of suspicion, identification of customers for wire transfers, etc. The implementation of these recommendations is underway.

2. Evolution of LBC/FT in the banking sector

As regards control of documents or permanent control, it should be noted that the instruction to collect information necessary to ensure respect by vulnerable institutions on their obligations was published in June 2006. The information can be obtained through a self-assessment questionnaire called ASTROLAB every six months by credit institutions. ASTROLAB has been installed in all credit institutions within CEMAC and reporting to the Central African Banking Commission became effective in 2008.

Regarding the spot or periodic inspection, the Secretariat General of COBAC initiated, as from the fourth quarter of 2006, thematic missions jointly on AML / CFT and internal control. All credit institutions within CEMAC have been controlled to date. During field investigations, inspectors examine the organization and internal procedures for the establishment on the one hand and verify the effectiveness of the mechanism by conducting investigations into the operations and records significant files, on the other hand. The findings of these missions are carried in a memorandum. It should be noted that COBAC now routinely conducts, during its on-site investigations, an audit of the AML / CFT.

The investigations reveal that:

- Most banks have set up a LAB (creation of a special service, appointment of a LAB who is usually the corresponding ANIF) and developed procedures. But this mechanism is generally perfected and procedures are not always comprehensive and disseminated among the staff. The latter is nevertheless aware of the AML / CFT but should be better trained. In addition, there are differences between institutions, particularly between subsidiaries of large foreign banks and smaller institutions with local capital;

- As regards the effectiveness of the mechanism, it appears that:

    - credit institutions globally exercise the right to diligence "due diligence" on customer knowledge, especially when entering into business relationship. Controls have however shown delays in updating of KYC records of former clients;
    - monitoring of operations is inadequate in part because of the absence of the threshold that must be fixed by the Ministerial Committee and a genuine policy of profiling accounts to know the expected operational profile of each account;
    - application of due diligence provided for PPE is not easy;
    - the diligence required for occasional customers are not always enforced, creating a risk of splitting when buying and selling traveler's checks, currency or money transfer transactions through alternative systems transfers (Western Union, MoneyGram, Travellex, etc.);
    - the number of information files compiled by credit institutions remains inadequate;
    - The procedure for declaring suspicion must be improved in some institutions; failure to declare suspicions is partly explained by delays in the effective kick-off of ANIF activities. Indeed, the six ANIF branches have been created and their members appointed, but only ANIF Cameroon and Gabon are operational.

COBAC is still in a phase of raising the awareness of taxpayers. Therefore, it does not yet apply sanctions when violations are noted. However, its action is effective. Indeed, almost all STRs transmitted to ANIF of Cameroon and Gabon stem from the financial sector.

Microfinance institutions (MFIs) are subject to review by COBAC and Regulations No. 01/03-CEMAC-UMAC and COBAC R-2005/01 apply to them. In general, the supervision of this sector is hampered by inadequate human and material resources; in terms of the number of MFIs within CEMAC (more than 700 accredited MFIs). This category of institutions is problematic in terms of customer identification on the one hand and genuine economic beneficiaries, on the other hand, to the extent MFIs themselves can open accounts in banks. COBAC has opted for a gradual but strict enforcement of the obligations of AML /

Article 4 of Regulation No. 02/00/CEMAC/UMAC/CM harmonizing the system of exchange rates within CEMAC member states indicates that the administration of foreign exchange regulations rests with the Ministry of Finance, which may delegate all or part of its powers to BEAC or COBAC and authorized intermediaries; CFT in this sector which is already having difficulty meeting prudential regulations. Under the Convention governing the UMAC and through its basic functions, BEAC is responsible for ensuring, in collaboration with the competent authorities of the Ministry of Finance, respect of provisions relating to foreign exchange regulations. Article 2 of COBAC Regulation R-2005/01 states that this regulation is applicable to exchange offices, when a Member State so requests.

The Regulations on CEMAC 01/03-CEMAC-UMAC on the prevention and suppression of money laundering and terrorist financing in Central Africa provides for its part that money changers are subject to the obligations to identify customers, monitor operations and keep documents on transactions above a certain threshold, set at EU level or national level, but is not yet fixed.

AML / CFT shares with regard to money changers are currently performed by COBAC through obligations imposed on banks in foreign exchange transactions, as money changers are bank customers. COBAC thus proceeded at the end of 2007 to an evaluation of the management of exchange transactions in all banks within CEMAC countries.

Regarding the sensitization liable persons, COBAC participated in 2008 and 2009 in seminars meant to raise the awareness of AML / CFT, organized by GABAC in N'Djamena, Brazzaville, Malabo, and Bangui. The speakers focused on the role of COBAC and banks in AML / CFT. In this respect, the drafting of a Memorandum of Understanding establishing a framework for dialogue and cooperation between COBAC and GABAC is underway. A study is also underway at the Secretariat General of the Central African Banking Commission on the development of a framework for collaboration and exchange of information with ANIF, including ANIF Cameroon.

Moreover, the non-recognition of GABAC by FATF is risky for member countries of CEMAC, and thus for banks in the sub-region.

Ultimately, AML / CFT mechanisms of CEMAC credit institutions are not yet fully compliant with COBAC Regulations R-2005/01, but the process of implementation is evolving positively. However, a strong political authority is more necessary than ever to sustain this system, including for the various regulatory bodies to exercise their role vis-à-vis their liable persons by COBAC in the banking system.

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In sum, at this time of financial turmoil, the progress noted reaffirms the commitment of COBAC to work for the consolidation of the banking system within CEMAC whose activity and performance remains positive.