



IV - BANKING AND FINANCIAL SYSTEM

1 - REVIEW OF DEVELOPMENTS IN THE BANKING SYSTEM

1.1 - Regulatory texts

The draft framework law on the designing of a legal and regulatory framework expected to favour the emergence of closed-end investment funds and adopted by the Council of Ministers of the West African Monetary Union, at its meeting held in March 2003 was incorporated in the internal legal order of the State of Benin, by the Parliament on June 25, 2006. In the other countries, the process to adopt this law is underway.

1.2 - Development of the banking network

In 2006, the WAMU banking network pursued its consolidation at a slower pace than in 2005. The Union banking landscape diversification was also maintained with the licensing of a new specialised bank.

Thus, four (04) new licenses were delivered in 2006 to three (03) banks and one (01) financial institution through the single licensing procedure. However, the licenses of two financial institutions were withdrawn over the review period.

Per country, the banking network was marked by the following developments :

- in Benin, Equipbail Benin license was withdrawn following the merger-absorption of this financial institution by Crédit Africain. Besides, the managers decided to change the absor-

bing company's name in Equipbail Bénin, with an extension of its activities to all the categories of transactions carried out by the first group's financial institutions ;

- in Côte d'Ivoire, a bank license was delivered to a company called Société Bridge Bank Group - Côte d'Ivoire (BBG-CI) ;

- in Guinea-Bissau, the Ecobank Transnational Incorporated (ETI) group as part of the strengthening of its presence within the WAMU, opened its eighth branch with the license delivered to Ecobank-Guinée Bissau ;

- in Senegal, the number of credit institutions increased with the license delivered to the Banque Regionale des Marchés (BRM) and the authorisation granted to the Société Africaine de Crédit Automobile (SAFCA) Côte d'Ivoire, for the opening a new branch in Senegal as part of the single licensing procedure ;

in Togo, the number of financial institutions decreased to three (03), following the license withdrawal of the Société Togolaise de Crédit Automobile (STOCA), at its request.

Furthermore, the WAMU Banking Commission at its December 27, 2006 meeting issued a conformity opinion in favour of the licensing as a financial institution of the Société Financière de Garantie Interbancaire du Burkina (SOFIGIB).

Table 30 : country distribution of credit institutions (*)

	12/31/2005				12/31/2006			
	Banks	Financial institutions	Windows		Banks	Financial institutions	Windows (**)	
			P1	P2			P1	P2
Benin	12	2	45	0	12	1	44	0
Burkina	11	5	86	39	11	5	96	39
Cote d'Ivoire	17	2	154	1	18	2	155	1
Guinea-Bissau	3	0	6	0	4	0	7	0
Mali	12	4	67	1	12	4	67	1
Niger	10	2	28	0	10	2	28	0
Senegal	17	3	146	1	18	4	174	1
Togo	10	4	82	2	10	3	81	2
WAMU	92	22	614	44	95	21	652	44

Source : BCEAO.

Note : P1 = permanent windows ; P2 = periodic windows.

* Based on licensing decrees or license withdrawal.

** Provisional data.

Source : BCEAO.

1.3 - Activities of banks and financial institutions

The activities of the WAMU banks and financial institutions were characterised by an increase by 8.2 % in uses and 7.2% in resources.

Globally, resources rose to 6,724.1 billion by end of December 2006, compared to 6,271.8 billion a year earlier, thus representing an increase by 452.3 billion. This was mainly due to an increase by 396.7 billion in deposits and borrowings and 52.7 billion in other resources. Net equity slightly increased by 3.0 billion over the period.

Uses increased by 448.2 billion to 5,907.0 billion as at December 31, 2006. This increase in uses was due to a rise by 387.3 billion in credit, of which 193,2 billion for medium and long term refinancing, 132.4 billion for short term credit, 60.1 billion for overdue loans and 1.6 billion for leasing credit and similar. The other uses increased also by 60.9 billion compared to the level of December 2005, in relation with an

increase by 30.4 billion in other fixed assets, 17.0 billion in diverse uses, 12.2 billion in investment securities and 1.4 billion in financial fixed assets.

The surplus in banks and financial institutions' cash flow increased by 4.1 billion to 817.1 billion by end of December 2006. The portfolio quality of the WAEMU banks and financial institutions, assessed on the basis of the gross rate of credit degradation, deteriorated by 1.0 percentage point over the review period to 18.5% in December 2006. The net rate of degradation increased also by 0.7% to 7.9% by end of 2006. The coverage of overdue loans by provisions decreased by 1.0 percentage point. Indeed, provisions built up in 2006 accounted for 62.5% of these overdue loans compared to 63.5% in 2005.

The above-described developments somewhat correspond to trends in the activities of **banks**, whose resources and uses accounted respectively for 98.6 % and 98.7% of the whole banking system as at December 31, 2006.

Indeed, banks' resources increased by 467.6 billion to 6,629.3 billion in December 2006, compared to December 31, 2005. The uses rose by 468.9 billion to 5,830.9 billion in 2006 compared to 5,362.0 billion a year earlier. Banks' cash flow, however, dropped by 1.2 billion to 798.4 billion by end of December 2006. The gross rate of degradation in credit increased by 1.3 percentage point to 18.5%. The net rate of degradation rose by 0.7 percentage point to 7.8% in 2006.

Developments in the activities of **financial institutions** were characterised over the period by a more sharply drop in uses than resources. Indeed, resources declined by 15.4 billion to 94.8 billion by end of December 2006, whereas uses dropped by 20.7 billion to 76.1 billion compared to 96.3 billion a year earlier. Net cash flow improved by 5.3 billion to 18.7 billion by end of December 2006. The credit portfolio quality of the Union credit institutions improved in 2006. Thus, the gross rate of degradation of the portfolio declined by 12.5 percentage points to 20.1% in 2006 compared to 32.6% in 2005. The net rate of degradation however improved to a lesser extent by 0.3% from 9.0% in 2005 to 8.7% in 2006.

1.4 - Status in relation to prudential mechanism

As at September 30, 2006, the risk coverage average ratio which measures the ratio between the effective equity capital and weighted risks of banks and financial institutions declined to 8.56% compared to 9.17% by end of December 2005. As regards banks, it dropped from 8.28% as of end December 2005 to 8.01% by end of September 2006 for a regulatory norm of 8%. The proportion of banks and financial institutions having met the solvency ratio slightly degraded from 70% in December 2005 to 67% by end of September 2006.

As regards the liquidity ratio, the proportion of banks and financial institutions which respected the minimum standard of 75%, increased by 2.0 percentage points to 59%. For the other prudential ratios, shortcomings were identified with respect to risk spreading, notably limits on credit exposure to a single signature, coverage of medium and long term uses by stable resources of the portfolio structure.

Concerning supervision in general, as at September 30, 2006, five (05) credit institutions, including two (02) banks were placed in trusteeship due to financial imbalances and management and operational insufficiencies.

Table 31 : trends in uses and resources of WAMU-based banks and financial institutions

WAMU	Billion CFA F		Changes	
	2005	2006	in value	in %
1. CREDIT	4 370.3	4 757.6	387.3	8.9
- Long term credit	141.5	151.6	10.1	7.1
- Medium term credit	1 181.8	1 364.9	183.1	15.5
- Short term credit	2 697.6	2 830.0	132.4	4.9
Of which seasonal credit	170.1	160.8	-9.3	-5.5
- Financial lease and similar credit	35.9	37.5	1.6	4.5
- Overdue credit (a)	313.5	373.6	60.1	19.2
Of which doubtful debt and contested claims	199.0	250.2	51.2	25.7
(a)/credit (in %)	7.2	7.9		
2. OTHER USES	1 088.5	1 149.4	60.9	5.6
Investment securities	460.4	472.6	12.2	2.6
Capital assets	154.4	155.8	1.4	0.9
Other assets	271.5	301.9	30.4	11.2
Miscellaneous uses	202.2	219.1	17.0	8.4
A. TOTAL USES (1+2)	5 458.8	5 907.0	448.2	8.2
1. NET EQUITY	713.0	716.0	3.0	0.4
2. DEPOSITS AND BORROWINGS	5 160.1	5 556.8	396.7	7.7
Time	2 559.1	2 771.1	212.0	8.3
liquid asset account	2 601.0	2 785.7	184.7	7.1
3. OTHER RESOURCES	398.7	451.4	52.7	13.2
B. TOTAL RESOURCES (1+2+3)	6 271.8	6 724.1	452.3	7.2
DEFICIT (-) OR SURPLUS (+) (B-A)	813.0	817.1	4.1	0.5
APPROPRIATION OF CASH BALANCE				
1. LIQUID ASSETS	168.3	200.5	32.2	19.1
2. BANKS AND CORRESPONDENT BANKS	644.7	616.6	-28.1	-4.4
Uses	1 217.8	1 296.6	78.8	6.5
of which outside WAMU	393.3	453.7	60.4	15.4
Resources	573.1	680.0	106.9	18.7
of which outside WAMU	155.7	204.8	49.1	31.5
DEFICIT (-) OR SURPLUS (+) (1+2)	813.0	817.1	4.1	0.5

Source : BCEAO.

1.5 - Rating agreements mechanism

The rating agreements mechanism was instituted by the WAMU Council of Ministers in December 1990 and readjusted in September 2002. It provides a qualitative control tool allowing a posteriori control of the portfolio quality of banks and financial institutions. In this respect, all credit institutions must maintain a ratio equal to or higher than 60% between their credit benefiting from a rating agreement and total outstanding gross credit.

In addition, banks and financial institutions must submit to BCEAO applications for rating agreements for at least their 50 largest credit users. Thus in 2006, 465 applications for rating agreement were documented by the Central

Bank, representing a total amount of 861.9 billion compared to 364 applications for an amount of 826.8 billion the previous year. After file examination, 341 applications that complied with the standards provided for by the mechanism totalling 341.9 billion, were approved, representing 73.3% and 39.7% of applications and amounts presented. The number of applications which were rejected for non-compliance with one or more ratios stood at 124 files for an amount of 519.9 billion in 2006 compared to 111 applications representing a global amount of 373,3 billion in 2005.

By end of December 2006, the outstanding total amount decreased by 3.0% to 235.6 compared to 242.9 billion a year earlier.

Table 32 : rating agreements examined in 2006 (million CFA F)

Countries	Number of files for rating agreement examined	Total of credit submitted to a rating agreement	Number of files granted a rating agreement	Amount of credit granted a rating agreement	Number of files rejected	Total number of credit for a rating agreement rejected
Benin	156	93 069	106	27 246	50	65 823
Burkina	43	126 877	32	8 636	11	118 242
Côte d'Ivoire	76	318 128	48	52 676	28	265 452
Guinea-Bissau	0	0	0	0	0	0
Mali	21	99 521	15	96 564	6	2 957
Niger	39	49 832	28	24 685	11	25 147
Senegal	15	149 025	8	118 577	7	30 448
Togo	115	25 434	104	13 580	11	11 854
Total	465	861 886	341	341 964	124	519 923

2 - REVIEW OF DEVELOPMENTS IN REGIONAL FINANCIAL MARKET

By end 2006, the activities of the regional stock market was marked by the admission to listing of ECOBANK TRANSNATIONAL LIMITED in September 2006 which led to an increase in all stock market indicators. On the whole, stock exchange indicators increased despite the decline in the prices of ECOBANK shares until the end of the year.

Over the first 2006 quarter, BRVM₁₀ and BRVM composite indexes increased by 25.6% and 20.6%, standing at 188.20 points and 135.89 points respectively. This development reflects the favourable orientation of security prices, in particular those of SONATEL which rose from CFA F 67,015 by end of December 2005 to CFA F 91,000 by end of March 2006 after having reached CFA F 91,500 in February 2006. BRVM₁₀ and BRVM composite indexes declined in May, June, July 2006 correlatively to the

increase in SONATEL shares. Then, they increased in August and September 2006, due to the rise in the prices of SONATEL shares and the listing of ECOBANK shares. The 27.7% decline in prices of ECOBANK shares between September and November 2006 led to the drop in BRVM¹⁰ et BRVM composite indexes which stood at 137.37 and 116.95 points respectively.

The global volume of transactions declined by 6.4% to 3,002,401 securities by end of December 2006 compared to 3,207,646 securities exchanged by end December 2005. On the equity market, the volume of transactions involved 2,371,155 securities compared to 3,088,465 securities in 2005. On the bond market, the volume of transactions increased noticeably to 631,246 bonds compared to 119,181 bonds exchanged in 2005.

As at December 31, 2006, 61 securities were listed including 40 shares and 21 bonds compared to 57 securities comprising 39 shares and 18 bonds as at December 31, 2005.

3 - REVIEW OF DEVELOPMENTS IN DECENTRALISED FINANCIAL SYSTEMS

The microfinance sector is expanding steadily in the West African Monetary Union (WAMU). Performances, evidenced by access indicators and financial flows were reinforced over the last two years, notably by the pursuit of the implementation of the actions of the regional decentralised finance support programme (PRAFIDE).

3.1 - Activity indicators

The estimates on developments by end of December 2006 in the sector are indicative of the dynamism of grassroots finance. Indeed, service supply increased due to the rise by 7.4% in the number of decentralised financial systems (SFD). As at December 31, 2006, 700 SFDs were identified within the Union with 4,200 ser-

vice points. The access to grassroots financial services enlarged to 6.9 millions of persons, representing nearly 15% of the active population of the Union. The financial operations realised through SFDs stood at 327.2 billion for the collection of deposits and 335.9 billion for credit granting.

The profitability of SFDs, measured by the ratio of net results on equity (excluding subsidies) stood at 10.5% in 2004, reflecting a slight improvement compared to 2003 where it was at 9.7%. However, this indicator remains below the 15% standard accepted at the international level in the microfinance field.

The gross rate of degradation of the portfolio stood at 6.5% by end of December 2006 compared to 6.2% by end of December 2005. However, it improved compared to 1998 where it stood at 10.2%. This situation is justified mainly by both internal factors (less satisfactory assessment and knowledge of risks by SFDs inter alia) and external factors (sluggish economic situation in some countries).

Results achieved by the microfinance sector highlight how important is the contribution of SFDs in the sustainable improvement of vulnerable and underprivileged people's living conditions.

3.2 - PRAFIDE Implementation

In order to favour the effective implementation of PRAFIDE activities, discussions were initiated with development partners notably the African Development Bank which envisages to undertake in 2007, an assessment mission to WAMU member States. In addition, the BCEAO signed an agreement worth US\$ 450,000 with the United Nations Capital Development Fund (UNCDF).

Taking into account these considerations, emphasis was laid on the realisation of the following activities :

- development of the legal framework and prudential mechanism ;
- capacity building ;
- studies and publications ;
- SFD supervision.

3.3 - Legal framework and prudential mechanism

The legal framework which should govern financial activity of SFDs was revised by the Central Bank to be submitted for adoption to the Council of Ministers. Taking into account the need to adapt to changes the decentralised finance sector, it includes provisions on the intervention of the Central Bank and the WAMU Banking Commission in the monitoring of institutions having a certain financial size, establishment of new monitoring tools (risk unit centre) as well as reinforcement of the prudential mechanism by the establishment of new standards (capitalisation) and procedures (compulsory certification of accounts and establishment of a security fund for the protection of deposits).

The draft Uniform Act relating to the law of cooperative and associative companies should be subject to a consultation with actors involved from OHADA member States prior to submitting it to OHADA validating and decision-making instances in 2007.

3.4 - Capacity building

To ensure a large diffusion of the SFDs-specific chart of accounts prepared by the BCEAO, training and sensitising actions were organised in all the Union states, with the exception of Guinea-Bissau. The workshops allowed two hundred and thirty microfinance actors from the sub-region to be familiar with the new accounting standards and practices. In order to increase the number of the recipients of these actions, training to SFD staff from the Union countries by trainers selected after the national training sessions will be provided in 2007. Permanent training workshops are also envisaged in favour of staff from supervisory bodies.

3.5 - Studies and publications

As part of improving information on the decentralised financial sector, the Central Bank initiated a survey on costs and pricing of services provided by SFDs in Senegal. This survey should enable to grasp costs and effective prices of financial services provided by these institutions and identify the main lines which could help reduce them. Besides, SFD monographies were published and quarterly papers on microfinance were also produced.

The 2006 year was marked by the start of the translation of the SFD accounting manual in Portuguese and the pursuit of the activities for data collection in view to carry out a feasibility study on the establishment of a risk unit centre specific to microfinance. In this regard, a study mission was organised in Germany and South Africa to obtain information on the experience related to the setting up and management of information centres. Lastly, an overall study on the WAMU microfinance sector was realised in order to assess the sector and conduct a reflection on its development prospects.

3.6 - Sector supervision

In order to enhance the monitoring of the sector, twenty-three (23) joint inspection missions of the Union major microfinance institutions were carried out by officers from the BCEAO and Finance Ministries with SFD in Benin (4), Burkina (2), Côte d'Ivoire (6), Mali (4), Senegal (5) and Togo (2). In 2005, only four (04) joint missions were conducted.

Besides, the first annual report on the assessment of the SFDs supervision was published and transmitted to the Authorities of the WAMU countries.

Enlarging people's access to grassroots financial services, in particular those of WAMU, is one of the major challenges which the monetary Authorities have to face. In order to enrich reflections in this field, the BCEAO participated

in the ongoing initiatives aimed at highlighting potentialities of microfinance and beyond, the driving role which it should play in the development of financial sectors accessible to a larger number. In this respect, it participated and organised conferences which took place in

Dakar on June 5-6, 2006, on financial inclusion in Africa and on October 18-20, 2006 in Bamako on the theme : « Microfinance and job creation : challenges and stakes".

The efforts will be pursued through the PRAFIDE to favour the achievement of this ambition.