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FINANCIAL STABILITY AND BANKING SUPERVISION WITHIN ECOWAS

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INTRODUCTION

Financial instability has become a source of major concern globally. The main reasons for this concern are the proliferation of financial crises from the late '80s to date, especially the successive crises in Asia, Latin America and the world today, and the financial and socio-economic costs they generate. The increasing interconnection of various components of the financial system and the increasing financial innovation which fits the current trend towards globalization has increased the risks and the extent of their impact. Indeed, credit institutions are more exposed to contagion risks because of the increasing linkage between institutions on the one hand and the financial markets on the other. In this regard, the global crises over the last year has brought together the financial community, the central banks and the public and private sectors around prevention and crisis management mechanisms.

Beyond their impact, the succession of more and more severe crises, raises first, the issue of institutional arrangements or bodies responsible for maintaining the financial system's stability and, secondly, the methods to be used to assess its strength and that of its main components (financial institutions, capital markets, payment systems and legal and regulatory framework for activities). Although the need to ensure financial stability has been the subject of scholarly debate in the economic literature, there are still controversies, particularly, with regard to which institution (s) should undertake this mission, but also how to achieve it. In fact, modern financial systems are composed of several segments (banks, insurance companies, stock exchanges) and each of them, traditionally, has a specific supervisory and regulatory regime. Given the growing interdependence and interconnection of these various segments, the question of the appropriateness of such a structure is clearly stated as part of the problem of the global financial system's stability.

All of these issues facing the key players internationally should also be a concern for the ECOWAS member states, for which financial stability remains a key issue for their economic and monetary integration. They must, therefore, adopt appropriate approaches, taking into account their specificities, in assessing the soundness of their financial system. Given the embryonic state of most financial systems in ECOWAS member states, issues relating to financial stability are rarely discussed although financial stability is an important component of the ECOWAS Monetary Cooperation Program (EMCP). However, things have evolved considerably since the outbreak of the global financial crisis.

Therefore, it would be useful to identify the best strategy to preserve financial stability in the sub region. That is the aim of this paper which starts by recalling key concepts before looking at the impact of the global financial crisis on the economies of the sub-region and the status of banking supervision in order to draw conclusions and make necessary recommendations.

1. CONCEPT AND CHARACTERISTICS OF THE FINANCIAL STABILITY FOR ECOWAS MEMBER STATES

The definition, identification of determinants and indicators of evaluation of financial stability need to be clearly understood at the level of ECOWAS member States, especially in the light of recent crises.

1.1 Definition and Stakes of Financial Stability

Financial stability refers to a situation whereby the performance of the financial system's various components and especially their mutual dealings, are soundly conducted and without major disruptions. It can be foreseen from the events of financial instability, defined as a disturbance on the capital markets leading to a rise in risks and a reduction of financial institutions performance within the framework of optimal allocation of resources, including for the most profitable investments. As such, this instability is the result of the financial institutions and capital markets' poor performances.

Financial stability requires the strength of the system's various components. It requires, in addition, an adequate performance of the exchange rate regime and good performances from other economic stakeholders, including state, non-financial businesses and households. The risks facing the regional financial system are, mostly, similar to those of other economies, but financial stability within the community requires first and foremost a balanced performance of the banking system, at both the

national and regional level, which represents the main component and, consequently, a potential risk because of its relationship with other institutions. Furthermore, banking integration has increased the importance of cross-border risks between the community's member states and the close relationships between oversight institutions. Thus, national systems are more exposed to common shocks and invariably contagion risks.

The issues of financial stability converge towards the economic and social development; the financial system's role being to provide intermediation between economic agents and to efficiently channel financial flows towards the growth sectors. The effectiveness of this intermediation particularly depends on maintaining mutual trust between stakeholders in credit institutions. Indeed, loss in confidence results in capital flights, lower bank deposits resulting from hoarding, and preference for holding savings in the form of real estates. This is followed by a drop in credit, investment and production, along an increase in NPLs (non-performing loans) in banks, corporate bankruptcies and rising unemployment. Generally, the financial system's issues are more often than not likely to reduce the effectiveness of monetary policies; the banking system being the main channel of transmission of this policy to the real sector. These issues also increase the costs to the national economy, given the needs for bailing out troubled financial institutions or repayment of depositors causing capital flight and economic downturns. In addition, the issues of financial stability also depend on the quality of institutional arrangements and payment systems in place to guide risk-taking from credit institutions and investment or placement decisions of non-financial agents. A good understanding of financial stability requires the definition and identification of its determinants.

1.2 Determinants of Financial Stability

The main determinants of financial stability can be grouped into three categories:

- Macroeconomic conditions: maintaining or restoring financial stability requires the promotion of adequate macroeconomic and structural policies. Credit institutions are impacted by changes affecting the macroeconomic environment in which they operate. The quality of their portfolio and the level of their performance and their capital depend on the situation of their assistance beneficiaries, which is mainly determined by the economic condition. A characteristic of ECOWAS member states economies is that they are exposed to external shocks, especially those related to terms of trade. The community's economies are dominated by the export of raw agricultural and mining material as well as a predominant informal sector. In addition, the financial situation of the community's member states is weakened by their heavy dependence on foreign assistance. These elements pose a significant risk to financial stability, given the close link between the public finance situation, the external financing, and the private sector performance. In fact, a reduction of foreign aid may lead to budget problems and an accumulation of arrears by the state, which would also affect financial system clients. Financial stability can also be promoted by the exchange rate regime. For example, for UEMOA and Cape Verde, financial stability is promoted by the fixed anchor of the CFA franc and escudo to Euro and the guarantee of unlimited convertibility of the CFA franc provided by the French Treasury.
- Internal arrangements of financial institutions and markets management: to maintain stability, it is essential to provide the financial system with an institutional and regulatory framework. The levels, nature and management of risks taken by the institutions that are components of the financial system depend on the infrastructure and regulatory framework as well as on the existing monitoring mechanism. The configuration and operation of these infrastructures determine the incentives for risk taking and affect the system's performances as well as the potential risks it faces. Thus, the strength of institutions depends on the monitoring and risk management mechanisms implemented by the control and supervision authorities. Therefore, the ECOWAS countries must continue to fight weak management, inadequate staff qualification and the lack of adequate information system that can lead to institutional failures and a systemic crisis.
- The effectiveness of the financial institutions and payment systems regulatory and supervision arrangement: the effectiveness of the institutional framework and the system's ability to adapt to innovations and environmental changes are also necessary conditions for ensuring financial stability. Unlike the other ECOWAS countries, the establishment of a unified capital

market in UEMOA has necessitated the harmonization of institutional and regulatory framework. Also, supervision is entrusted to community-based bodies or institutions. These provisions, reflected by the absence of disparities in financial legislation between States, represent one of the main determinants that contribute to achieving the targeted objective.

1.3 Indicators of Financial Systems Soundness

The recent financial crisis has shown how financial instability could impede the performance, no matter how outstanding, of an emerging economy. These crises have shown the need to establish early warning indicators that will enable us to assess the soundness of the financial system and, ultimately, enact policy measures capable of reducing the financial instability risks.

The basic indicators of financial soundness retained internationally are developed based on the monitoring framework of financial institutions, referred to as CAMELS. This analytical framework defines six categories of indicators to assess and cover major financial and non-financial risks facing financial institutions. It is capital adequacy, asset and portfolio quality, corporate management and governance, profitability, liquidity and market risks (Annex 1). In the insurance sector, soundness quantitative indicators are based on the framework called CARAMELS which is an extension of the CAMELS model for insurance companies.

The assessment of financial stability also includes infrastructures analysis consisting of institutional arrangements put in place to ensure and regulate the relationships between the different components of the financial system. Indeed, the main infrastructures of the financial services sector, such as payment systems, supervision and regulation bodies as well as rules and standards governing risk taking and management, are destabilizing vectors of a financial system, if not effectively carried out. The quality of the payment infrastructures, the existence of an adequate accounting system, a supervision framework and management standards, a legal framework governing mainly licensing, proper management of financial institutions bankruptcies, market infrastructures providing coverage and risk management mechanisms as well as the establishment of a monitoring framework for corporate governance are all qualitative factors that contribute to ensuring and maintaining the financial system's stability. However, in the context of community, the diversity of the different financial institutions' supervisory bodies, often impede cooperation and consideration of the interrelationships between the system's components in the analysis of financial stability.

1.4 The Role of Central Banks in maintaining financial stability

The main objective of most Central Banks is to maintain price stability, without prejudice to other economic policy objectives, namely promoting strong growth and the quest for optimal level of employment. In this regard, there seems to be a consensus today on the complementarity between this primary objective and financial stability. Price stability helps reduce uncertainty of borrowers' creditworthiness (solvency), although it can also lead to potentially high risk taking, because of an excess of confidence. In addition, central banks are generally involved in banking regulation and supervision as well as in payment systems' safety. Finally, as the suppliers of high powered money, they are, by nature, potential last-resort lenders, even if the usefulness of the lender of last resort's existence has been widely studied, especially since Thornton (1802) and Bagehot (1873). In fact, the lender of last resort function is based on the vulnerability of the banking system facing liquidity and contagion risks caused by the existence of asymmetric information between lenders and borrowers. Although the consensus on the responsibility of the central bank to carry out this mission seems clear, the question related to the usefulness of this function and to what institutions should benefit from its support is, nevertheless, very relevant. Thus, regardless of their different responsibilities, they cannot be indifferent to the monitoring of credit institutions. Its role is deemed essential for maintaining the banking system's stability but also the financial system's stability.

Central banks have direct responsibilities vis-à-vis the money market and indirect responsibilities vis-à-vis the financial market. They are thus required, because of their mission, to have a broad knowledge of the markets operation, even if their responsibility as a regulator differs in scope based on the compartments. As such, they should have a thorough understanding of the overall operation of all

markets; this being inherent to their mission. Indeed, the different market segments are for various reasons a forum, where the monetary policy signals and effects are transmitted.

Thus, because of its traditional tasks of issuing high powered money and guaranteeing the soundness of payment systems, but also its regulatory and supervision functions, the Central Bank plays a fundamental role in the financial system's performance. However, system's stability depends on many other factors, especially the soundness of real counterpart, the evolution of the environment and infrastructures.

2. THE FINANCIAL CRISIS IMPACT ON THE ECOWAS ECONOMIES[1]

The international financial crisis was the headlines of the economic and financial news in 2008, given the turmoil it produced on the financial markets and its effect on the real economy. The intensification of inflationary pressures around the world during most of the year, partly as a result of the increase in prices primary commodities, has also caught the attention of the markets during the past year.

The crisis came at a time when West Africa began a turning point, gradually laying the foundations for accelerated growth. The optimistic growth prospects are now undermined by factors beyond the control of authorities. The projections show that growth rates should be more moderate. The slower growth was primarily due to lower trade flows. Exports falling more rapidly than imports, the trade balance will deteriorate in most countries. Consequently, the community should expect an overall deficit in 2009, contrary to recent years where a surplus position has traditionally been recorded. The capital inflows, which were an important growth factor in recent times, have also declined. Similarly, most countries face a reduction of remittances by migrant workers because of weakening economies of Western countries and developed African economies. The stocks of foreign exchange reserves and government revenues are declining. The overall fiscal balances will deteriorate for the entire community. The impact on the budget is even worse for countries that are net importers of oil and the countries whose food imports are substantial, due to the effects of rising oil and food prices which began in 2007. The revenues of oil exporting Countries will also significantly decrease.

The drying up of liquidity in international financial markets has affected the private sector and governments. Governments attempt to mobilize long-term financing through issuance of sovereign bonds were unsuccessful (bonds issued by Ghana Telecom for 300 million U.S. dollars), or have been deferred (issuance of Euro-bond for Nigeria). This resulted in costly delays in the implementation of public infrastructure programs which were originally planned.

A number of private sector projects in Africa have been suspended or postponed until later because some investors had withdrawn and that the funding arrangements had become more stringent.

On the banking side, unlike what happened in first world countries, there has not yet officially been a systemic banking crisis in the community even though the situation in Nigeria remains a concern. Commercial banks and other financial institutions in most countries of the community remain overall healthy and stable. The transnational linkages between banking systems are minimal; exposure to complex financial products has become less and the financial systems are not well integrated in the world's financial markets. However, the indirect effects of the crisis are felt at several levels including:

- in the case of Guinea, the decline in operations of major mining companies that provide banks the bulk of foreign exchange resources. Note that these companies are hit by falling demand and commodity prices;
- for Sierra Leone and Ghana, a significant depreciation of their currencies;
- for the UEMOA countries, fall in exports, transfers, etc…
- for Nigeria, a depreciation of the Naira and the increase of difficulties for some banks under prudential regulations.

[1] For more details, please check the document entitled "the financial crisis impact on macroeconomic convergence in ECOWAS", 2009 by WAMA.

In addition, the crisis continues and may increase risks. Regarding financial markets, those of Nigeria and Ghana have been the most affected by the crisis (because of their links with other parts of the world), with falling stock market prices, capital flight and pressures on their exchange rates. Moreover, the fact that many economic agents have used bank loans to purchase securities, the fall in stock market prices has exacerbated the difficulties of some Nigerian banks.

3. THE NEED TO IMPROVE BANKING SUPERVISION WITHIN ECOWAS

The financial crisis has underscored the importance of improving the financial supervision which is generally provided by national authorities, although the sector is increasingly engaged in cross-border activities. In addition, a close monitoring of the financial sector, especially banks, will minimize vulnerabilities and mitigate risks. In this regard, we will focus on a sample of three ECOWAS countries and a zone: UEMOA, Nigeria, Guinea and Sierra Leone. From the components perspective we will look at the banking and capital market.

3.1 Vulnerability of the ECOWAS banking sector

3.1.1 Size

In modern economies, the state is often forced to intervene to prevent the bankruptcy of some large companies, because of the risks that this poses to the overall economic and financial system. Thus, during the 80s, at least twenty (20) companies among the one hundred (100) first world countries would not have survived if they had not been "saved" by their respective Governments. One reason for public intervention is that the stability of the system can be considered as a "public good", even so essential that the entire nation’s future and cohesion depend on it. This "Too Big to Fail" doctrine thus provides a collective insurance against systemic risk and further, the worsening of economic difficulties. However, the optimal treatment for the "Too Big to Fail" problem requires limiting the inherent *moral hazard* in this type of action. In fact, doesn’t that insurance against a given risk, promote behaviours that make the achievement of this risk more probable? Furthermore, the existence of such a doctrine conceals a consubstantial ambiguity because it is a violation of the normal process of the market economy and a condition of its continuity. This ambivalence continues to fuel the debate on the risks associated with major banking groups. This problem seems significant for the community, in a context where a small number of financial institutions are at the heart of the financial system whose failure would be tragic for the entire system. Does this high concentration of activities in the sector give a meaning to the doctrine of "Too Big to Fail" in the community?

Within UEMOA[2], in late December 2004, the 10 largest credit institutions accounted for 43.7% of assets, and the 20 largest collected 63.1%. In Guinea, the three banks of French origin own a significant part of total assets. Sierra Leone has thirteen commercial banks and banks of Nigerian origins constitute a significant proportion.

3.1.2 Membership of a large international group

The presence of large banking groups is a stabilizing factor since their subsidiaries in the community are subject to the supervision of their parent store and enjoy a solidarity group for risk sharing or transfer of technology. However, this presence is a possible transmission vector of the financial crises effects that could affect the parent stores. Similarly, there is a strong tendency for foreign banks to withdraw from the regional market, at the slightest deterioration of the situation.

Within UEMOA, eight international groups are present on the Union’s banking market: Société Générale, BNP Paribas, African Financial Holding / Bank of Africa (AFH / BOA), Ecobank Transnational Incorporated, Belgolaise, CALYON (Crédit Agricole group), Citibank and Standard Chartered Bank. Organized into thirty-three units in total, with three financial institutions, they are present in all countries of the Union except in Guinea Bissau. In Guinea, among the 10 banks operating in the country three are subsidiaries of French banks (BICIGUI, SGBG, UIBG), three are Nigerian or West African banks settlements (FIB, UBA, Ecobank), three from Maghrebian or Arab groups (BPMG, BIG, BSS) and belongs to a Malaysian network (ICB). In Sierra Leone, six are subsidiaries of Nigerian banks

[2] The main banking groups are included in the annex.

(First International Bank, Guaranty Trust Bank, Access Bank, United Bank for Africa, Skye Bank, Zenith Bank) BICIGUI, SGBG, UIBG), two are African groups settlements (Ecobank and Standard Chartered Bank), two are funded by foreign groups (International Commercial Bank in Malaysia and ProCredit Bank in Germany).

3.2 Banking risks Increase

Credit risk is a potential source of financial instability in the community's countries, particularly because of the dominance of credit in the banks' assets, the main component of the financial system. On one hand, it is related both to the imperfect credit market, characterized by high information asymmetry, and on the other hand, to the risks inherent to the socio-political and institutional instability, as well as the cyclical risks that affect the real economy. Thus, a prolonged slowdown in the economy increases credit risk. For example, the domestic financial sector is vulnerable to a sharp decline in revenue from customers or its ability to service its debt, especially when credit growth has been, so far, particularly strong. Banks may also incur losses on other types of financial assets (such as deposits with correspondent banks in difficulty). In addition, large sectors, such as wood and cotton, are hardly hit due to the sharp contraction in global demand and falling prices of most commodities and their problems can quickly spread to the banking sector.

The control of credit risk requires the adoption of appropriate instruments of assessment (ex ante) and risk monitoring (ex post). Credit risk is assessed in terms of banks portfolio quality and the sectoral distribution of credits. The concentration of bank portfolios is also a source of vulnerability in many countries of the community.

The main market risks experienced by credit institutions of the community are those relating to foreign exchange transactions and changes in prices of exported commodities by Member States. In this regard, it should be noted that the risk of interest rates differs in scope according to the areas of fixed and flexible exchange rate regimes. In some countries, the banking system could be increasingly exposed to market volatility. Countries where high returns on shares had prompted investors to borrow to invest in the stock market (e.g. Nigeria) face the greatest risk.

The main types of operational risk involve breakdowns in internal control procedures and corporate governance. In the absence of good banking governance, foreign parent banks might withdraw their funds from their subsidiaries or banks in the ECOWAS zone and / or ask its West African subsidiaries to repay the loans they have granted them and / or never invest the profits in local subsidiaries.

3.3 Financial Markets Development within ECOWAS

Within ECOWAS, three financial markets can be formally mentioned. It is the Nigerian Capital Market (NCM), the stock market in Accra Ghana, the stock market in Cap Verde and the Regional Stock Exchange (BRVM), which is a creation of the UEMOA. This paper will focus more on the NCM and the BRVM because of size, importance and data availability purposes.

The NCM was actually created in 1960 with the establishment of the Lagos Stock Exchange (LSE). It has however been fully operational only in 1991. First admitted as an Association limited by guarantee, it operated on the basis of annual subsidies paid by the Central Bank of Nigeria (CBN). It is in 1977 that LSE was transformed into the Nigerian Stock Exchange (NSE) which is the LSE business centre. It is a powerful means of mobilizing the public and private sector savings and an effective instrument of redistributing these resources for production purposes. It is divided into two compartments. The first compartment which provides an important guarantee to the business operation fulfils the funding for generally large size companies. If the first compartment is very selective in terms of access conditions, the second, the Second-tier Securities Market (SSM) is more flexible and it is the favourite intervention area for small and medium enterprises. Since 1995, the Lagos Stock Exchange is subject to major reforms undertaken under the leadership of the capital markets deregulation program adopted by the authorities in 1993 with the abolition of the Law limiting foreign ownership in NCM. These reforms are clearly an important step for the integration of NCM in the international finance market. The importance of the Lagos Stock Exchange can be measured in terms of the economic weight of Nigeria. The domestic market size is in itself an indicator of choice. However, the analysis will deal with it entirely, the role and importance of a stock market

being a function of other parameters such as financial strength and especially the importance of companies capitalization that take part in the stock market.

Within the framework of reforms implementation related to the deepening of economic integration in West Africa, UEMOA has initiated the creation of a regional financial market with the establishment of a Regional Stock Exchange (BRVM). The formal decision to create the BRVM was taken on December 17, 1993 by the council of the Ministers of the West African Monetary Union (UEMOA). The same Council of Ministers, at the same time, mandated the Central Bank of the West African States (BCEAO) to lead the project. The various efforts initiated by the BCEAO in consultation with Member States lead, on December 18, 1996, to the creation of the Regional Stock Exchange Securities Ltd and Central Depository / Settlement Bank Ltd, and to the official start of activities on September 16, 1998. Many efforts are to be made in order to allow the financial market to fully play its role as a funding catalyst for the Union's economies. These efforts relate to improving the socio-economic environment and that of the operating framework and financial market activities. For the purposes of addressing these shortcomings, a project called "Le chemin de l'espoir" ("The Road of Hope") was launched in June 2004. This project targets a deepening of the regional financial market. It will be implemented over a period of five years and provide a way to help each of the UEMOA institutions in the financial market.

The previous developments indicate that serious efforts are being made to ensure some formal existence to the financial market in West Africa. However, given its size and organization, this market still needs some relatively long time before being an instrument for mobilizing the savings with an international dimension. Rather than playing a role at an international level, this market will work for recognition at the regional level. In this regard, it needs to be boosted at all levels, including supervision, to become an effective and efficient financing tool of economies in the sub region. In other words, there is need to embrace the opportunity of capital markets by addressing all the challenges associated with the harmonisation of securities market regulatory framework, including for instance policies on cross-border listing, financial reporting standards across the sub-region, amongst others.

4. Status of Banking Supervision within the ECOWAS

The principles of the Basel Committee for an efficient banking supervision provide an allocation of regulatory functions on the one hand, and those for control and sanction on the other hand, between the different control and regulation and institutions of banking activity. The banking activity framework within the ECOWAS countries or zone is essentially organized around a prudential mechanism, additional instructions and a banking law that governs vocational practice (licensing and withdrawal, conditions for appointing bank managers, bank operations and financial institutions, monetary authorities information, publication of accounts, controls and sanctions). It should be noted however that there are some country or zonal specificities.

4.1 The UEMOA[3] Zone

In addition to the Bank Act, the banking activity framework is directed around a convention establishing the UEMOA Banking Commission, a prudential mechanism and accounting standards across the board, a regional mechanism governing external financial relations of UEMOA Member States, and a harmonized system to fight money laundering.

a) Bank Monitoring Framework

Monitoring or Supervision of credit institutions within UEMOA is carried out by a supranational body with extended authorities, the Banking Commission. The Central Bank manages its secretariat. From an organizational standpoint, the Banking Commission, chaired by the BCEAO Governor, includes one representative from each UEMOA member state and a panel of members appointed intuitu personae by the Union's Council of Ministers. These representatives are independent in the performance of their duties. To carry out its missions, the Banking Commission is empowered to take administrative

[3] The main banking groups are included in annex 2

measures and has also been granted sufficient powers to apply disciplinary sanctions in case of any violation of banking regulations. It may also extend, where appropriate, its controls to related companies and suggest the appointment of temporary administrators or liquidators for banks and financial institutions. The supervisory framework is reinforced at the regional and international level with exchange and cooperation agreements with some other supervisors. Thus, cooperation agreements were signed with the regional council on public savings and financial markets (CREPMF), the French Banking Commission and the senior management of the Republic of Guinea Central Bank. Similar approaches are on the way with the supervisory bodies of Ghana, Gambia and Nigeria. Moreover, the UEMOA Banking Commission is a member of the Board of Supervisors of West and central Africa Banks and Liaison Group on Basic Principles, established with the Basel Committee.

For the accounting framework and financial information reporting, the regulation requires that credit institutions be subject to an external audit conducted by certified auditors in accordance with the rules established by the Banking Commission. Furthermore, credit institutions are required to publish their annual accounts in an official journal and display in their premises the general conditions applicable to their customers.

Regarding the regulations on external financial relations of UEMOA Member States, Regulation No. R09/98/CM/UEMOA of December 20, 1998 specifies the framework of financial intermediation and sale of foreign currencies, and the requirements for current and capital transactions with the rest of the world. The institutional and regulatory framework has been strengthened by an anti-money laundering law and a regulation on fund blockage in the fight against terrorism financing in order to preserve the Union's financial system integrity.

b) Prudential Situation

At the end of fiscal year 2008, the prudential status of the ninety-seven (97) banks and nineteen (19) financial institutions in activity was presented by the UEMOA Banking Commission.

i) Banks Prudential Condition

The prudential arrangement primarily targets two objectives: to strengthen the solvency and stability of the banking system and ensure greater protection for depositors in the context of liberalizing monetary, banking and financial transactions. (Ref. Table below).

Table 1: Situation of UEMOA banks prudential standards in 2008

Solvency Standards				Other prudential Standards					
Number of Banks	Representation of minimum Capital	Risk Coverage	Limitation of capital assets and stockholding	Limitation of commitments on a same signature	Limitation of individual risks overall volume	Limitation of loans to main shareholders to Managers and staff	Coverage of long and medium uses with stable resources	Liquidity coefficient	Portfolio Ratio structure
Benin (12)	7	7	7	7	7	7	4	8	-
Burkina (12)	11	11	10	5	11	9	6	7	-
Cote d'Ivoire (19)	11	14	10	10	14	12	9	12	-
Guinea Bissau (4)	3	4	4	4	4	4	4	4	-
Mali (13)	11	12	12	9	12	12	9	9	-
Niger (10)	8	8	8	5	8	7	7	7	
Senegal (16)	15	15	15	10	15	16	10	12	1
Togo (11)	9	9	7	7	8	7	4	7	-
(97)	75	80	73	57	79	74	53	66	1

Sources: UEMOA Banking Commission

- **Solvency Standards**

Three main standards are used to assess the solvency of the banks: minimum capital requirement, risk hedging and the limitation of fixed assets and stockholdings in line with the capital adequacy regulations of each institution. The minimum capital representation requires Union 's credit institutions to have, at all times, core capital that is at least equal to the minimum statutory capital of 1 billion francs CFA or set in the approval decision. Until December 31, 2008, seventy-five (75) banks, representing 87.9% of deposits, complied with this rule. In fact, in 2008, eighty (80) banks out of ninety-seven (97) had met the standard of risk coverage by effective equity, set at an 8% threshold. These banks represent 82.5% of operating banks and control 91.9% of deposits collected by the banking system. The average solvency ratio of the Union's banks stood at 11.9%. The limitation of capital assets and stockholdings aims mainly at ensuring that banks finance their fixed assets on equity resources. Seventy-three (73) banks representing 82.6% of deposits were in good standing vis-à-vis the standard limiting their assets and stockholdings in their effective capital.

- **Other Prudential Standards**

The other prudential standards mainly relate to the limiting commitments on the same signature, capping individual risk, limiting loans to major shareholders, managers and staff, coverage of the medium and long term uses with stable resources, liquidity and portfolio structure.

Credit institutions must limit, up to 75% of their effective capital, the risks on a same beneficiary or a same signature. Fifty-seven (57) banks representing 67.3% of deposits, i.e. 58.8% of the total comply to this norm.

The prudential arrangement requires banks and financial institutions to limit, by eight times, their actual capital, the total risk taken on all individual beneficiaries reaching 25% of the said capital. The percentage of banks meeting this standard amounted to 81.4%; i.e. seventy-nine (79) banks which hold 88.3% of deposits.

Seventy-four (74) banks, corresponding to 76.3% of operating banks comply with the standard that limits the loans accumulation to major shareholders, managers and staff, 20% of their capital.

The medium and long term employment coverage with stable resources, requiring coverage, up to at least 75% of fixed jobs or a residual maturity of more than two years, with stable resources, aims at preventing excessive processing of short term resources for medium and long term uses by banks. It helps to ensure a balanced financial structure of credit institutions. At the end of December 2008, 53% of operating banks complied with this requirement.

Intended to prevent the short term illiquidity risk of the banking system, the liquidity ratio requires banks to have sufficient cash or uses whose residual maturity does not exceed three months to cover, up to at least 75%, their liabilities with the same maturity. At the end of December 2008, sixty-six (66) banks concentrating 75.2% of deposits met this requirement.

The portfolio structure ratio depends on the Central Bank's classification agreement arrangement, the ultimate goal being to encourage banks to hold sound assets capable of supporting the refinancing of the Central Bank and to put at their disposal a qualitative monitoring tool of their loan portfolio. Thus, credit institutions are bound to respect the rule setting a minimum ratio of 60% between healthy credit stocks and benefiting from the Central Bank's classification agreements and the total volume of their portfolio. At the end of December 2008, only one (1) bank met this ratio.

ii) Other Financial Institutions Prudential Situation

According to statements provided by financial institutions twelve (12) out of nineteen (19) satisfied the minimum capital requirement rule, sixteen (16) meet the standard of risk coverage by equity capital, eighteen (18) satisfied the limitation of fixed assets and stockholdings, eighteen (18) met the limitation on commitments of same signature standard, sixteen (16) complied with the rule limiting the overall volume of individual risk, fifteen (15) met the standard limiting loans to major shareholders, managers and staff, sixteen (16) comply with the requirement of long and medium term

uses by stable resources and only one (1) financial institution respects the portfolio structure ratio. It should be noted that:
- The portfolio structure does not apply to four (4) institutions, because of the nature of their sale on credit activity, guarantee or investment in fixed capital;
- One (1) establishment, carrying equity capital and investment capital, is not subject to the standards of risk coverage and capital assets and stockholdings limitation;
- Loans restriction to major shareholders, managers and employees shall not apply to an institution specializing in securities operations;
- With the exception of one financial institution, none is subjected to the liquidity ratio.

Table 2: Situation of UEMOA financial institutions prudential standard in 2008

	Solvency Standards			**Other prudential Standards**				
Number of Banks	Repre-sentation of minimum Capital	Risk Cove-rage	Limita-tion of capital assets and stock-holding	Limi-tation of commit-ments on a same signature	Limitation of individual risks overall volume	Limitation of loans to main share- holders to Managers and staff	Coverage of long and medium uses with stable resources	Po l str
Benin	1	1	1	1	1	1	1	
Burkina	4	5	5	5	5	4	4	
Cote d'Ivoire	1	2	3	3	2	2	2	
Guinea Bissau	-	-	-	-	-	-	-	
Mali	1	2	3	3	2	2	3	
Niger	1	1	1	1	1	1	1	
Senegal	3	3	3	3	3	3	3	
Togo	1	2	2	2	2	2	2	
WAMU (19)	12	16	18	18	16	15	16	

Sources: UEMOA Banking Commission

In total, according to the UEMOA banking commission, the overall situation of the UEMOA banking system remains strong. However, many institutions remain fragile, in conjunction with the financial performance and insufficient capital. Moreover, at the disciplinary level, in 2008, the Banking Commission convened hearings of leaders of four (4) banks and one (1) financial institution in accordance with the procedure prescribed by Article 25 of the Annex to the Convention related to its creation. These disciplinary proceedings resulted in the delivery of three (3) severe reprimands and one (1) withdrawal of an approval from a bank, especially in the case of non-compliance with the terms of a close surveillance measure, the shortcomings in the management of an institution under close surveillance for eight (8) years and the failure to comply with all prudential standards, the inefficient management of risks and the consequent lack of recapitalization to bridge the equity gap. Moreover, the Banking Commission has taken three (3) measures of compulsory retirement for two (2) directors and one (1) General Manager working in a bank established in Benin, with regard to serious violations that have undermined the viability of the operations.

It should also be noted that the Banking Commission conducted, among a sample of 43 banks in the Union, a new survey in the second quarter of 2009, to assess the impacts identified through their external financial relations, the evolution of the customers' financing needs, some outstanding debts and liquidity. It shows that one third of responding institutions observed, recently, voluntary or involuntary changes in their financial relations with external correspondents. Indeed, the volume of activities with related institutions that are severely affected by the crisis has been reduced, while the available refinancing has reduced or moved into new markets. Consequently, it was noted a rise in charges and commissions, and a reinforcement of security deposits required to cover operations.

c) UEMOA Regional Stock Exchange (BRVM)

The regulation and supervision of the Union's capital markets are performed within a regulatory and institutional regional framework. This framework gives the BCEAO the regulation and supervision authority on the money market, while the long-term compartment of the Union's capital markets falls under the responsibility of CREPMF. The legal and regulatory framework put in place and the action of regulatory institutions have contributed to the recycling of surplus capital in the Union while preserving the regional financial market of any major disturbance factors since the beginning of its activities in 1997. In this respect, very few payment incidents were reported for reimbursement of bond maturities and the unwinding of transactions under BRVM.

Between 2004 and 2008 the funds raised on the primary market amounted to 901 billion francs CFA. 92.5% of this amount represents loans primarily raised through PO (public offering). On the stock market 95% of amounts are collected after the PO (public offering). Foreign investment remains still very low.

Table 3 : Evolution of resources on the primary market (in millions of francs CFA)

	2004	2005	2006	2007	2008	Total
Loans, of which	84 700	219 695	176 500	256 928	96 008	833 831
Public offers and savings	*65 200*	*194 895*	*170 500*	*212 128*	*94 208*	*736 931*
Private offers	*19 500*	*24 800*	*6 000*	*44 800*	*1 800*	*96 900*
Shares, of which	11 829	433	2 562	1 197	51 190	67 211
Public offering	*11 141*	*0*	*2 150*	*561*	*50 076*	*63 928*
Foreign placements	*688*	*433*	*412*	*636*	*1 114*	*3 283*
						0
Amount mobilized	**96 529**	**220 128**	**179 062**	**258 125**	**147 198**	**901 042**

Source : CREPMF

In terms of secondary market trading, transaction volumes have increased significantly since 2004. The volume of transactions in 2007 represent 3.2% of the 2004 one while the 2008 one is equivalent to 3.6 times the level of the previous year. The rapid increase in transactions in 2008 was accompanied by a drastic drop courses in the wake of the declining trend of major awards following the global financial crisis. Indeed, the index 10 of BRVM 10 which earned 120 points between 204 and 2007 experienced a fall of nearly 15% in 2008. Companies in the agro industry have been severely hit by the collapse in prices. The market capitalization has followed the same trend. It increased significantly between 2004 and 2007 before recording a 10.5% decrease in 2008.

Table 4: Evolution of principal Indicators of the secondary market (2004-2008)

Item	2004	2005	2006	2007	2008
Volume of transactions	3 025 032,00	1 330 416,00	2 781 033,00	9 717 973,00	35 468 951,00
Value of transactions (in billions of F CFA)	37,2	20,6	59;6	68,2	158,43
Stock mkt capitalisation(in billions of F CFA)	1 283,50	1 623,35	2 476,17	4 304,20	3 851,37
Shares market	*1 005,00*	*1 297,07*	*2 067,02*	*3 726,16*	*3 336,65*
Securities markets	*278,5*	*326,28*	*409,15*	*578,04*	*514,72*
BRVM 10	102,70	149,87	130,95	224,85	192,08
BRVM composite	87,61	112,68	112,65	199,45	178,17
No. of companies listed	39	39	40	38	38
No. of obligations	16	18	18	27	29

Source: CREPMF

4.2 Some WAMZ Countries

4.2.1 Nigeria

The financial institutions which are under the oversight of the Central Bank of Nigeria (CBN) include deposit money banks, discount houses, primary mortgage institutions, community banks, finance companies, bureaux de change and development finance institutions.

a) Bank Monitoring Framework

The banking supervision unit carries out the supervision of banks and discount houses while the other financial institutions unit supervises the community banks and other non-bank financial institutions. The supervisory process involves both on-site and off-site arrangements.

The on-site aspect includes independent on-site assessment of banks' corporate governance, internal control system, reliability of information provided, etc. The off-site aspect reviews and analyses the financial conditions of banks using prudential reports, statutory returns and other relevant information. It also monitors trends and developments for the banking sector as a whole. Industry reports are generated on monthly and quarterly basis.

It handles also the supervision of community banks (CBs), primary mortgage institutions (PMIs) finance companies (FCs), bureaux de change (BDC) and development finance institutions (DFIs).

The CBN adopted various approaches in its supervisory and surveillance activities in the banking sector. These approaches include a regular appraisal and review of banks' periodic returns, spot checks, monitoring and special investigations, the adoption of Risk-based Supervision/Compliance Examination 9Hybrid), among others.

The Bank issued a number of circulars and guidelines to the DMBs as part of its efforts to promote a safe and sound financial system. These included:

- A public notice on the payment of private sector depositors of the 14 banks that had their licenses revoked in January 16. 2006;
- A circular to all banks and discount houses on a common accounting year-end;
- Rescheduling of specific debts;
- A circular to all banks of off-shore expansion;
- Reform of discount houses in Nigeria
- A directive to forward the account details of illegal fund managers or wonder banks to the CBN;
- The de-marketing of banks by other banks;
- The exclusivity clauses in the agreements signed by Nigerian banks with international money transfer operators;
- Returns on interest rates on deposits and loans; and
- The deployment of resident examiners to banks.

As part of its on-going efforts to improve efficiency in its supervisory process, the CBN created a Supervisory Methodology Group Unit in 2008. The Group was charged with the responsibility of further developing and supporting the implementation of Risk-based Supervision Framework adopted in 2007. In this regard, the Group reviewed the existing supervisory framework and developed three guidance notes, namely, Risk Assessment Summary (RAS), Knowledge of Business (KoB), and identification of significant activities. In addition, it developed a supervisory strategy to provide support and understanding of the framework.

An inter-agency Committee comprising of the CBN, the Security and Exchange Commission (SEC), the Nigeria Deposit Insurance Corporation (NDIC), the Corporate Affairs Commission (CAC), the Economic and Financial Crimes Commission (EFCC), and the Nigerian Police Force (NPF) was inaugurated in

February 2008 with a view to adopting a common framework in addressing the menace of illegal fund managers or wonder banks.

b) Prudential Mechanisms

i) Prudential Status of the Banks

Income audits, verification of capital and special investigations were conducted on some banks to check the authenticity of statutory reports and returns to the CBN. The examination focused on the level of income and profits in their audited accounts, liquid assets, as well as the legitimacy of funds used for recapitalization.

Pre-licensing inspections were conducted on three finance companies that were operating with approvals in-principle. Out of the three (3), two (2) were granted financial licenses to operate as finance companies. The process of adopting new prudential requirements or standards for the regulation of Development Finance Institutions (DFIs) received a boost with the issuance of the final copy of the "Prudential Standards and Guidelines for African Development Banks and Finance Institutions" and the selection of Nigeria's Bank of Industry (BOI) as one of the African DFIs for the pilot scheme on the rating of DFIs. The document which has been drawn up under the aegis of the Association of African Development Finance Institutions (AADFIS), is expected to serve as the basis for regulating these institutions for enhanced operational sustainability and greater efficiency.

- **Compliance with the Code of Corporate Governance for Banks of Nigeria**
  The CBN continued to monitory compliance with the provisions of the "Code of Corporate Governance for Banks in Nigeria" in 2008, through the appraisal of DMBs' monthly reports of their compliance status as well as periodic on-site verification. The exercise revealed that most of the banks complied with a number of the provisions, while those that failed to comply were sanctioned. In order to address the observed problems and challenges encountered in implementing the provisions of the code, the Bank commenced its review in 2008.

- **Financial Crime Surveillance/Money Laundering**
  The CBN carried out a number of examinations an Anti-Money Laundering/Combating Financing Terrorism (AML/DFT). Some of the problems observed while carrying out the money laundering examinations included difficulty in obtaining information of Politically Exposed Persons (PEP), lack of transparency by operators and lack of continuous training for staff.

- **Routine Examination**
  Routine examinations were conducted on banks to ascertain, among other things, the deposit trends, facilities granted in respect of mortgage, consumer items, share as well as the level of performing and non-performing loans to all sectors. Following the recent upsurge in the demand for foreign exchange, the Bank also conducted both target and routine examinations on some financial institution to ascertain the level of utilization of foreign exchange disbursed to them. The examination of the foreign exchange operations of the institutions revealed various infractions, including improper record-keeping, incomplete documentation by banks, and wrong use of unconfirmed letters of credit. The errant banks were appropriately sanctioned.

- **Some Prudential Targets**
  The average Capital Adequacy Ratio (CAR) of the banks was consistently high and above the stipulated minimum of 10.0 percent. However, two (2) banks could not meet the stipulated minimum ratio, compared with three (3) at end-December 2007. The asset quality of the banks as measured by the ratio of nonperforming loans to industry total loans improved in 2008 at 6.3 percent, reflecting a 2.0 percentage points decline from the preceding year's level. The industry liquidity ratio was above the 30.0 percent minimum requirement, with only two (2) banks failing to meet the stipulated ratio, as in the preceding year.

A review of the behaviour of the banking sector has shown that the banks are generally in good health. Also, it has resulted from this assessment that the weaknesses of the banks should not cause any problems in terms of supervision, despite the ravaging effects of the global financial crisis.

It has resulted from the verification of the integration status of banks' post-consolidation that their performances have improved compared to the preceding year. Also, it must be noted that, from this practice sixteen (16) out of the nineteen (19) banks which should integrate themselves made a significant progress while the three (3) others reached a noticeable integration level compared respectively to twelve (12) and to six (6) that were recorded during the preceding year. Also, following publications in the national newspapers by the Committee requesting members of the public to submit claims against any illegal fund manager or wonder bank, 417 companies operating illegally were identified, with about naira 100.0 billion funds trapped in those companies. Through the collaborative efforts of the Committee, the SEC has charged and obtained judgment against 30 out of the 417 illegal fund managers or wonder banks at the Investments and Securities Tribunal (IST), while the remaining were being investigated.

However, it must be acknowledged that during the year 2009, the CBN has undertaken since the month of June the financial audit of the 24 banks established in Nigeria. This operation aims at reorganizing the credit institutions and guaranteeing in the process the national banking system stability. The first phase of the audit, which dealt with ten institutions, has shown serious failures in terms of governance and compliance with regulatory provisions by five of them. Consequently, the people responsible were relieved of their duties. As far as those banks are concerned, it has emerged that they have been managed to the detriment of the depositors' and creditors' interests. The persons responsible had given themselves some advantages and credit facilities regardless of the risks' management common rules. The second phase of the audit dealt with the 14 remaining banks and showed that 4 among them were in a difficult situation. The chief executives of three banks were relieved of their duties. One injunction was made to the managers of two banks so that they could be recapitalized by June 30, 2010. Overall, ten banks out of 24 were subjected to sanctions. Given the serious liquidity risks engendered by this situation, the Central Bank of Nigeria decided to support them.

ii) Prudential situation of other financial institutions

The CBN conducted on-site examination of 430 Microfinance Banks (MFBs), 67 Primary Mortgage Institutions (PMIs), 77 Finance Companies (FCs), and 4 Development Finance Institutions (DFIs).

The examination of the MFBs was conducted to ascertain the extent of compliance of the newly converted or licensed MFBs with the terms of their business plans and the extant rules and regulations as well as ensure a greater focus on core microfinance business. The exercise revealed a generally poor asset quality and weak corporate governance. On the average, however, the institutions were reasonable well capitalized above the prescribed minimum level of naira 20.0 million (twenty million naira).

The examination of the PMIs revealed, among others, the continued preponderance of commercial assets over mortgage assets in their loan portfolios, which is an indication that the operational focus of the PMIs was at variance with their mandate of promoting housing finance/mortgage banking. Regular prudential returns were received from eighty (80) PMIs, compared with seventy two (72) in 2007, while fifteen (15) PMIs were penalized for late and non-rendition of returns and audited accounts.

Routine examinations conducted on seventy-seven (77) FCs indicated that fifty-five (55) were actively involved in finance company business, while the remaining twenty-two (22) had either ceased operations, were undergoing restructuring, or mainly engaged in capital market activities. Other issues of regulatory concerns, which the affected institutions were directed to address, were issues of under-capitalization, poor corporate governance, and unskilled and/or incompetent staff.

On-site examination was carried out on four (4) out of the five (5) DFIs. These included the Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB), the Federal Mortgage Bank of Nigeria (FMBN), the Bank of Industry (BOI), and the Nigerian Export-Import Bank (NIXIM). The exercise revealed deterioration in asset quality and poor corporate governance in most of the DFIs, among other things. There was, however, an improvement in the shareholders' fund of all the institutions except the FMBN.

Spot checks conducted on selected 182 BDCs indicated that most of the institutions breached operational guidelines, particularly with regards to the mark-up margins and the utilization of foreign exchange allocations. Appropriate sanctions were imposed on the erring institutions.

c) Nigerian Capital Market (NCM)

Transactions in the stock market are guided by the following legislations, among others:

- Investments & Securities Decree No. 45, 1999.
- Companies and Allied Matters Decree 1990.
- Nigerian Investment Promotion Commission Decree, 1995.
- Foreign Exchange (Miscellaneous Provisions) Decree, 1995.

Transactions on The Exchange are regulated by The Nigerian Stock Exchange, as a self-regulatory organisation (SRO), and the Securities & Exchange Commission (SEC), which administers the Investments & Securities Decree 1999. Following the deregulation of the capital market in 1993, the Federal Government in 1995 internationalised the capital market, with the abrogation of laws that constrained foreign participation in the Nigerian capital market.

Consequent upon the abrogation of the Exchange Control Act 1962 and the Nigerian Enterprise Promotion Decree 1989, foreigners can now participate in the Nigerian capital market both as operators and investors. Also, there are no limits any more to the percentage of foreign holding in any company registered in the country. Ahead of this development, The Exchange had since June 2, 1987, linked up with the Reuters Electronic Contributor System for online global dissemination of stock market information - trading statistics, All-Share Index, company investment ratios, and company news (financial statements and corporate actions).

In November, 1996 The Exchange launched its Internet System (CAPNET) as one of the infrastructural support for meeting the challenges of internationalisation and achieving an enhanced service delivery. The Internet System facilitates communication among local and international participants in the market, as subscribers to the system include stockbrokers, quoted companies, issuing houses, etc, who now use the facility to receive and send e-mail, globally and locally. But more importantly, they can, through this medium, access key market information - trading statistics (current and historical), corporate trading results, etc.

Transaction volumes have increased significantly since 2004. The volume of transactions in 2007 represent 2.7 times of the 2004 one while the 2008 one is equivalent to 1.3 times the level of the previous year. This increase in transactions in 2008 was accompanied by a drastic drop courses in the wake of the declining trend of share prices following the global financial crisis. Indeed, the all share index which earned 34145 points between 204 and 2007 experienced a fall of more than 45% in 2008. The market capitalization has followed the same trend. It increased significantly between 2004 and 2007 before recording a 28.4% decrease in 2008.

Table 5: Evolution of the Main Indicators of the Capital Market of Nigeria

ITEM	2004	2005	2006	2007	2008
Volume of transactions	973 526,00	1 021 967,00	1 367 954,00	2 615 020,00	3 535 631,00
Variations		*5%*	*34%*	*91%*	*35%*
Value of transactions (Naira Millions)	225 820,00	262 935,80	470 253,40	1 076 020,40	1 679 138,70
Variations		*16%*	*79%*	*129%*	*56%*
with Equities	*223 772,50*	*254 683,10*	*468 588,40*	*1 074 883,90*	*1 675 609,80*
Market Capitalisation (Naira Billions) with	2 112,50	2 900,10	5 121,00	13 294,60	9 516,20
Variations		*37%*	*77%*	*160%*	*-28%*
Equities	*1 926,50*	*2 523,50*	*4 228,60*	*10 301,00*	*6 957,50*
Governement Securities	*178,10*	*365,50*	*888,90*	*2 976,60*	*2 529,60*
Debt	*7,90*	*11,10*	*3,50*	*17,00*	*29,10*
All-Share Index	23 844,50	24 085,80	33 189,30	57 990,20	31 450,78

Sources: CBN, bulletin statistics, WAMA

4.2.2 Guinea

The Guinean legal and regulatory system concerns in particular the adoption in 2005 of the new banking law, Act L/2005/010.AN of July 05, 2005 related to the regulation of credit institutions in the Republic of Guinea, and of the law Act L/2006/010/AN of October 24, 2007 related to the fight against money laundering in the Republic of Guinea.

a) Bank Monitoring Framework

The supervision of the banks, insurances and Micro-finance companies is carried out directly by the Central Bank throughout the General Inspection Office which comprises three departments: Banking Management Office, Insurance Management Office and Micro-Finance Management Office. The supervision is done both on-site and on-site.

The new banking law aims at putting in place a simple legal framework, compliant with the international banking and financial standards such as the ones recommended by the Basle Committee, the Bretton Wood institutions, while emphasizing national specificities. Thus, the law of 2005 includes in its provisions financial institutions with particular status and carries out a redefinition of credit institutions business unit in view of a better understanding of the role of each category. It reinforces the supervisory power of the Central Bank on credit institutions. The new law takes into account the fundamental principles of banking supervision. It preserves the existing articles of the 1994 law. As far as the field of regulation is concerned, the reinforcement has dealt mainly with prudential provisions.

b) Prudential mechanisms

The Guinean prudential regulation concerns mainly the minimum capital, solvency ratio, liquidity ratio, transformation coefficient, division and risks' concentration as well as foreign exchange limitation risks.

c) Minimum capital

Starting from December 1st, 2008, the level of minimum capital increased from GNF 10 billions to GNF 50 billions (about 10 millions US Dollars), following the decision of the Approvals Committee nºD/2008/005/CAM of November 26, 2008. This decision was motivated on one hand by the recurrent

breaches in the prudential ratios owing to the level of banks shareholders equity that seemed clearly insufficient compared to the volume of activities and on the other hand, because of the fact that compared with the countries of the sub-region with similar economies, Guinea had the weakest level of shareholder's equity.

In accordance with this decision, the operating banks have been requested to reach a minimum capital as per the following planning:

- GNF 25 billions on March 31, 2009 ;
- GNF 35 billions on March 31, 2010 ;
- GNF 50 billions on 31 March 2011 ;
- GNF 50 billions, minimum starting share capital for start-up banks.

- **Solvency ratio and liquidity ratio**

The net debt ratio on shareholder's equity or solvency ratio has been fixed to 10% in compliance with the Basle principles. As far as liquidity ratio is concerned, the prescribed standard was set at 100%.

- **Transformation coefficient, Division and Concentration of Risks**

The regulation demands that the banks cover up to 60% of their assets items for more than 5 years with permanent resources and for a long term. As far as the division and concentration of risks are concerned, the involvement standard on the same beneficiary has been limited to 25% of shareholders' equity.

- **Foreign exchange risks limitation**

The regulation demands that the banks do not keep long positions on foreign currencies. They must give up to the Central Bank all the surpluses on foreign currencies.

The assessment made these last years indicate that breaches mainly relate to the division and concentration of risks and the limitation of foreign exchange risks. The other prudential provisions are generally complied with by all the banks.

4.2.3 Sierra Leone

The legal and regulatory system in Sierra Leone is based on the following laws:

- The banking Act of 2000 ;
- The law on other financial institutions of 2001 ;
- The banking regulation of 2003
- Money laundering Act of 2005.

a) Banking supervision framework

In Sierra Leone, the supervision of banks and micro-finance Companies is directly carried out by the Central Bank throughout its banking Supervision department. The supervision is done both on-site and on-site.

b) Prudential mechanisms

The Sierra Leonean prudential regulation deals mainly with the following aspects:

- **Minimum capital and capital adequacy ratio**

The level of minimum capital has been raised to 3 billions to reach 12 billions of Leones compared to about 4 billions of dollars in 2008. This decision has been taken in order to reinforce financial soundness of the banks. As far as capital adequacy ratio is concerned, it has been fixed to a minimum of 15%.

- **Liquidity ratio**

All the credit institutions are expected to comply with the following liquidity ratios:

- A minimum cash volume of 10% of total deposits ;

- A minimum liquidity level equivalent to 40% of demand deposits and 20% of saving deposits and short-term.

- **Division and concentration of risks**

The 2003 regulation requires that the Board of Directors of the banks take useful steps to limit the concentration of risks.

- The position on a currency must not exceed 15% of the capital ;
- The whole positions on foreign currencies must not exceed 25% of the capital.

The assessment which was done in 2008 indicates that the coefficient of adequacy capital has been positioned to 43.5% above the standards. This situation has been caused by the increase of shareholders' equity due to the rise of 3 billions Leones of the minimum capital balance. As far as the cash reserves and global liquidity are concerned, the required levels have been exceeded.

c) Capital Market

The year 2008 marked significant milestones in the development of the legal and regulatory framework for the establishment of a capital market and enhancement of the operationalisation of the Sierra Leone Stock Exchange. Major achievements include the completion of the legislations, training (CIS workshop), financing and acquisition of office space for the Sierra Leone Stock Exchange (SLSE). Equally, the Bankruptcy Bill and the Revised Companies Act, already finalized in the first half of 2008, are have been forwarded for enactment.

In a bid to actualize the operation of the stock exchange, the Bank of Sierra Leone signed an agreement on August 4, 2008 to provide a concessional loan of Le 1 billion to the Sierra Leone Stock Exchange Company. The loan aimed to meet start-up and first year operation costs of the Company and provided accommodation for the company (SLSE) in its premises in order to facilitate trading.

CONCLUSIONS AND RECOMMANDATIONS

This document has reviewed the main risks that weight on the banking system and the financial markets of ECOWAS as well as the efficiency of the monitoring provision of these bodies. It emerges that the banking monitoring provision is generally in line with the international standards particularly the Basle principles. However, it has been observed that the financial institutions of the sub-region are not immune from the current financial globalisation despite the implementation of this prudential provision. It has also been noted that the banks of the region have linkage with foreign financial institutions, especially in terms of shareholding. In fact, an essential part of the main principal banks of the sub-region are the establishments of European or Arab banks. It has also been noted a great deployment of Nigerian banks within the ECOWAS zone. This situation represents a factor of regional financial integration in the sense that it makes possible the emergence of a regional banking and financial market. However, the difficulties recorded by certain Nigerian banks with regard to compliance with the prudential regulation underscores the need for effective supervision to minimise systemic risks.

In order to consolidate the situation of the community's banking system and reinforce the efficiency of supervision bodies as well as the stability of credit institution within an environment that has become more and more competitive and subject to important external shocks, the following recommendations, should be adopted and implemented:

National Level

1. reinforce conditions relating to appointment of bank managers;
2. reinforce the banking supervision bodies in order to enable them to perform correctly their work ;
3. enhance technological and professional capacities of supervisors for a better control of the risks ;
4. ensure greater regularity of on-site supervision of banking institutions ;
5. Institute deposit insurance schemes where they are lacking ;

6. fight against bad corporate governance, inefficient risks management practices, inadequate control framework and less ethical practices ;
7. apply correctly the expected sanctions against the defaulting banks with regard to the prudential provision.

Regional Level

8. promote the exchange of experience between banking supervision bodies of the sub-region ;
9. harmonize regulation in terms of banking supervision in order to implement a consolidated supervision and adjust it to the working methods which have become necessary because of the establishment of banking groups on many community places and the demands of a control that focuses more on risks;
10. reinforce coordination and consultation between the regulation authorities and the monitoring of the different divisions of the financial system ;
11. design an emergency prudential framework plan as well as systems to face all imminent systemic banking crises;
12. put in place an efficient information exchange provision between the supervision banking bodies, particularly, with regard to the banks that operate in several countries.

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Annex 1 : Main basic indicators of financial stability

Capital Adequacy: it helps to assess, from risks coverage ratios by equity capital, the solidity of the financial system and its capacity to absorb shocks that affect the balance sheet of institutions. This assessment takes into account the capitalisation level or of equity capital, their structure, the variability of their capacity to face immediate or more diffuse shocks and over the time.

Quality of assets. Solvency risks that weigh on the financial system come often from the evolution of the quality of the portfolio of financial institutions. The credit risk is appreciated from the quality of the portfolio, its structure and the sector based distribution of credits or of assets. Moreover, geographic distribution analysis of the portfolio provides important information on the exposure of the financial system to foreign exchange risks or to countries presenting high risks of crises.

Profitability. It shows the solvency dynamics of financial institutions, mainly through their capacity to generate profits to increase equity capitals. Profitability is positively correlated to the quality of the portfolio of financial institutions and is mainly dependent on it. The quantities and ratios used in this analysis are elements of the formation of the result translating the quality of management, as well as investment returns of assets and equity capitals.

Liquidity. Financial institutions, because of their intermediation activities, need liquidity. On the systemic level, the liquidity of the system assumes not only the existence of available and achievable assets to solve current liabilities, but also the presence of markets, deep enough for the realization of assets. Therefore, analyses based on the share of available and achievable assets in the total assets are completed by indicators associated with liquidity management.

Market risks. Exposure to market risks is a common thing in banking and financial activities. Risks on interest rates come from financial intermediation activity. Foreign exchange risks can be appreciated through the net exchange position of the financial system.

Solvency of non financial companies and households. The quality of the portfolio of credit institutions directly depend on the financial health of companies and households that are the main beneficiaries of credits allocated. Thus, data on these entities are analysed, in relation to their indebtedness towards financial institutions and the impact of variables associated with the macroeconomic and financial environment of their situation.

Indicators of financial markets' assets and hypothecaries. The evolutions of the rates of financial assets and those of the real estate market affect financial stability monitoring. For example, an increase in real estate prices, fed by an expansionary monetary policy, or a huge capital inflow, can be a source of vulnerability for the financial system.

Macroeconomic and financial Indicators. Given that the operation of financial and non financial institutions depend on the global level of economic and financial activities, indicators that help to capture the economic environment are covered. The evolution of variables such as interest rates, real estate rates, and economic growth rates, have an important impact on the asset base, solvency and the behaviour of financial and non financial institutions as far as risks are concerned. The selected macroeconomic indicators are mainly global or sector based economic growth, the balance of the current transactions balance, inflation rate, interest and exchange rates as well as assets on the financial markets.

Annex 2: Major banking groups in UEMOA

Group	Number of agencies	Market shares (*)	Cash desks (**)	Number of customer accounts	Total number
Ecobank (ETI)	8	13,2%	161	504 680	2100
Société Général	4	12,8%	115	439 714	1833
BOA Group	8	10,8%	73	317 382	1043
Including Financial institutions	2	0,3%	2	-	18
BNP Paribas	5	9,4%	108	321 010	1485
Attijariwafa Bank	2	8,0%	108	255 780	670
AFG (GROUPE ATLANTIC)	8	5,1%	127	111 910	1077
IUB Holding (CREDIT AGRICOLE)	2	3,3%	21	111 060	567
Total	37	62,5%	713	2 061 536	8775
Including financial institutions	2	30,0%	2	-	18

(*) In relation to the total of UEMOA (**) Agencies and offices