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Report No: 46353-AFR

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT IN THE AMOUNT OF SDR 20.4 MILLIONS
(US$32 MILLION EQUIVALENT)
AND
GRANT IN THE AMOUNT OF SDR 11.5 MILLION
(US$18 MILLION EQUIVALENT)

TO THE

CENTRAL AFRICAN STATES BANK

FOR A

CEMAC REGIONAL INSTITUTIONS SUPPORT PROJECT

November 11, 2008

Finance and Private Sector Development
Western and Central Africa
Africa Region

CURRENCY EQUIVALENTS

Exchange Rate Effective: September 30 2008

Currency Unit	=	C.F.A. Francs BEAC
449.655 CFAF	=	US$1
1.57078 US$	=	SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfdB	African Development Bank
AFD	*Agence Française de Développement*
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BDEAC	*Banque de Développement des États d'Afrique Centrale* (The Development Bank of Central African States)
BEAC	*Banque des Etats de l'Afrique Centrale*
BOAD	Development Bank of West Africa
CAS	Country Assistance Strategy
CEMAC	*Commission de la Communauté Economique et Monétaire de l'Afrique Centrale* (The Central African Economic and Monetary Community)
CFA	*Coopération Financière en Afrique Centrale*
UGRIF	*Unité de Gestion de la Reforme des Institutions Financières de la CEMAC* (Reform Management Unit)
CIMA	*Conférence Interafricaine des Marches d'Assurance*
CIPRES	*Conférence Interafricaine de la Prévoyance Sociale*
COBAC	*Commission Bancaire de l'Afrique Centrale*
COSUMAF	*Commission de Surveillance du Marché Financier de l'Afrique Centrale*
DSX	Douala Stock Exchange
DTIS	Diagnostic Trade Integration Study
EU	European Union
FIAS	Foreign Investment Advisory Service
FIUs	Financial Intelligence Units
FODEC	Community Development Fund
FSAP	Financial Sector Assessment Report
GABAC	*Groupe d'action Contre le Blanchiment d'Argent en Afrique Centrale*
GDP	Gross Domestic Product
GoF	Government of France
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IEG	Independent Evaluation Group
IMF	International Monetary Fund
ISN	Interim Strategy Note
M&E	Monitoring and Evaluation

MFIs	Microfinance Institutions
MPC	Monetary Policy Committee
OHADA	*Organisation pour l' Harmonisation du Droit des Affaires* (Organization for the Harmonization of African Business Law)
PCN	Project Concept Note
PID	Project Implementation Document
PIM	Project Implementation Manual
PPF	Project Preparation Facility
RIAS	Regional Integration Assistance Strategy
SBD	Standard Bidding Documents
SIL	Specific Investment Loan
SME	Small and Medium-size Enterprises
SYSCOA	*Système Comptable Ouest Africain*
TSA	Treasury Single Account
UGRIF	*Unité de Gestion de la Réforme des Institutions Financières*

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CENTRAL AFRICA
CEMAC Regional Institutions Support Project

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CENTRAL AFRICA

CEMAC REGIONAL INSTITUTIONS SUPPORT PROJECT

PROJECT APPRAISAL DOCUMENT

AFRICA

AFTFP

Date: November 10, 2008 Country Director: Mark D. Tomlinson Sector Manager/Director: Iradj A. Alikhani	Team Leader: Andres D. Jaime Sectors: General finance sector (100%) Themes: Other financial and private sector development (P);Infrastructure services for private sector development (S)
Project ID: P099833	Environmental screening category: Not Required
Lending Instrument: Specific Investment Loan	

Project Financing Data

[ ] Loan [X] Credit [X] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 50.00
Proposed terms: Standard IDA: Credit maturity 40 years, with 10 years grace period

Financing Plan (US$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	22.0	7.6	29.6
International Development Association (IDA)	5.0	45.0	50.0
Bilateral Agency	0.0	1.0	1.0
Foreign Multilateral Institutions	0.0	1.0	1.0

Borrower:
BEAC
Yaounde Cameroon
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Central Africa

Responsible Agency:
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Estimated disbursements (Bank FY/US$m)									
ꟳY	10	11	12	13	14				
‹nnual	5.00	10.00	25.00	40.00	50.00				
ꞆCumulative	5.00	15.00	40.00	80.00	130.00				

The project aims to strengthen Central African regional institutions so that they can fulfi l their mandates to encourage an expanded, better governed regional market, and a more transparent, better regulated and more competitive financial system. This will facilitate the re-utilization of oil revenues for investment in Central Africa. The project supports programs approved by the member governments designed to improve the efficiency of regional institutions. This will be accomplished by strengthening regional institutions. Project outcome indicators are given in Annex 3 and include increases in the percentage of foreign reserves managed regionally by BEAC, growth of investment in regional projects (primarily infrastructure investments), and increases in the percentage of banks meeting key prudential norms.

Project description *[one-sentence summary of each component]* ***Ref. PAD II.A., Technical Annex 4***

The project will be financed by a Specific Investment Loan (SIL). The project will be financed with IDA financing in the total amount of SDR 31.9 million (US$50 million equivalent in the form a Credit in the amount of SDR 20.4 million (US$32 million equivalent) and a Grant in the amount of SDR 11.5 million (US$ 18 million equivalent). This is the most appropriate instrument to finance the advisory services, training and equipment, materials and supplies required in support of the reforms of CEMAC institutions.

Which safeguard policies are triggered, if any? ***Ref. PAD IV.F., Technical Annex 10***

None triggered

Significant, non-standard conditions, **if any**, for:

Ref. PAD III.F.

Board presentation:

None

Loan/credit effectiveness:

Prior to Effectiveness:

(a) BEAC has adopted the Project Operations Manual in form and substance satisfactory to IDA

(b) The Steering Committee, comprising of the Governor or Vice-governor of BEAC as chair and the head of each of the other institutions participating in the Project, has been established.

(c) The Monitoring Committee, comprising the Director General of BEAC responsible for studies, finance, and international relations as chair and a representative from each of the other institutions participating in the project, has been established.

(d) The Project Coordinator has been appointed.

(e) BEAC and BDEAC have signed a satisfactory agreement spelling out the obligations of each institution under the project.

Covenants applicable to project implementation:

(a) BEAC to ensure that a financial management system is maintained for the project, audits are carried out, and Financial Monitoring Reports are furnished to IDA in the agreed formats and periodicity.

(b) A mid-term review of the project will be carried out 24 months after Credit effectiveness and annual reviews will be conducted with IDA in the first quarter of the year.

(c) BDEAC accounts will be audited by BEAC's external auditors which are acceptable to IDA in accordance with international accounting and auditing standards, and the report sent to the Bank by June 30 of each year.

(d) BEAC will prepare and send to IDA not later than December 31 of each year, the annual work plan and budget for the project for each subsequent year, except for the first year when it will send it no later than one month after effectiveness.

(e) BEAC will prepare, and send to IDA on or about March 1 of each year, a report on the progress achieved of the project during the preceding period and integrating the results of the monitoring and evaluation activities, and review the report with IDA by May 1 of each year

(f) BEAC will carry out jointly with IDA no later than 24 months after effectiveness a midterm review to assess the status of Project implementation, as measured against the agreed performance indicators. The review will include the results of monitoring and evaluation activities; and annual work plans and budgets;

(g) BEAC will send to IDA three months before the mid-term review a report on the progress of the project, and subsequently take the measures to ensure the efficient completion of the Project and the achievement of its objectives.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

Background

1. The Central African Economic and Monetary Community (CEMAC) comprising Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon, is one of the oldest regional blocs in Africa and has its roots in the colonial era when member countries other than Cameroon and Equatorial Guinea were organized as a federation with a common currency, the CFA *(Coopération Financière en Afrique Centrale)*. The region is the smallest of African regional arrangements with a population of about 31 million; countries are contiguous, but forests, few natural trade routes and poor infrastructure make communications difficult. The region is well endowed with natural resources including petroleum in five of the six countries (discovered in the nineties in Equatorial Guinea and Chad). Cameroon and Gabon are the largest economies, accounting for some 64 percent of regional GDP; some 47 percent of the population lives in Cameroon. The countries rank low on the human development index (CAR 169; Chad 167; Republic of Congo 144; Cameroon 141 and Gabon 122 out of 177). The grouping is diverse, including relatively prosperous coastal economies and two poorer landlocked countries: Chad and the Central African Republic; regional agreements have always recognized the importance of integration to the development of the land-locked countries. Petroleum dominates macroeconomic developments and the region is vulnerable to external shocks because of its high dependence on oil for fiscal revenues. Annex 1 of this report includes additional information on regional issues and the financial sector.

2. The increase in oil prices has made the management of liquidity in the financial system and intra-regional financial flows a central issue of economic policy. Some countries in the region, notably Equatorial Guinea, are generating surpluses from petroleum exports part of which could be reinvested to promote regional development.

3. The integration movement dates to independence in the early sixties when the region was organized as a loose monetary association; a customs union was established in 1964, but in fact, policies pursued in each of the countries discouraged intra-regional trade. In the 1980s, the oil price collapse and macroeconomic imbalances led to a severe depression (per capita GDP fell by an annual average of 3.7 percent in 1985-1993), which eventually led to a 50 percent devaluation in 1994 of the CFA Franc and the adoption of an economic reform program. Reforms included restructuring of the regional customs union (renamed the Central African Economic Union) which together with the Central African Monetary Union became CEMAC under a treaty ratified in 1999. As a result of the reforms started in 1994, the region has a less distorted trade regime than most countries in sub-Saharan Africa. The reforms also helped develop the institutional infrastructure for the Community, and the exchanges led to a growing recognition among member countries of the advantages of integration both in terms of economic development and in their standing internationally and vis-à-vis their larger neighbors (principally Nigeria, given its recent growth, but also the Democratic Republic of Congo).

4. The CEMAC policy agenda calls for integration through financial sector integration; an expanded customs union; macroeconomic policy convergence and coordinated sector policies.

Progress has been made in financial integration, which is critical for expanded intraregional trade and the movement of capital, including the petroleum surpluses, among countries. The CEMAC countries share (i) a Central Bank – BEAC (*Banque des Etats de l'Afrique Centrale)* the strongest regional institution, which formulates a common monetary policy and manages the CFA, which has a fixed parity with the Euro; (ii) a banking supervision commission – COBAC (*Commission Bancaire de l'Afrique Centrale*) which is charged with regulation and supervision of financial institutions, including microfinance institutions, but excluding insurance companies and the postal service; COBAC is competently run, although short of resources; and (iii) a Development Bank –BDEAC *(Banque de Développement des États d'Afrique Centrale),* which has been mandated to promote regional investments; after a difficult period in the eighties and nineties during which it stopped lending activities, BDEAC began a restructuring process in 2002 which has led to an improved performance. Regional institutions to regulate the financial market (COSUMAF, *Commission de Surveillance du Marché Financier de l'Afrique Centrale*) and to deal with money laundering (GABAC, *Groupe d'action Contre le Blanchiment d'Argent en Afrique Centrale*) were established in 2003. The institutional architecture of CEMAC was headed by an Executive Secretariat which was quite weak. In 2007, the Regional Council of Ministers approved institutional reforms with the objective of strengthening regional institutions and in particular BEAC and CEMAC.

5. The CEMAC members also share a common external tariff and business laws harmonized under the OHADA initiative *(Organisation pour l'Harmonisation du Droit des Affaires),* a common regulatory framework and supervisory agency for the insurance sector (CIMA-*Conférence Interafricaine des Marchés d'Assurance*), common accounting standards (SYSCOA-*Système Comptable Ouest Africain*) and an institution aiming to unify pension systems (CIPRES-*Conference Interafricaine de la Prévoyance Sociale*). OHADA, CIMA, SYSCOA and CIPRES include members from outside the CEMAC region.

6. A program to reform regional institutions to improve their effectiveness has been under discussion since 2005, and changes, which relate principally to BEAC and CEMAC, were approved by the Chiefs of State in April 2007. The reforms were triggered both by the need to modernize the institutions and also to take into account the increased weight in the region of the economy of Equatorial Guinea. The proposed project will provide support to enable regional institutions to perform their mandate.

Integration and Sectoral Issues

7. Progress has been made in laying the groundwork for economic and particularly financial sector integration, with the establishment of a common currency and a comprehensive institutional framework. Low intraregional trade is the result of inadequate infrastructure, and the absence of historical trade links. However, financial integration could facilitate trade, and regional financial markets are not integrated, despite the common currency. The absence of policies to develop the regional inter-bank and debt markets and to increase the number of banks operating across the region has impacted economic integration and trade. The main features of the regional financial sector are summarized below and detailed in Annex 1 to this report.

8. A CEMAC Region Financial Sector Assessment prepared by the World Bank and the IMF in 2006 notes that the regional financial system is rudimentary, and access to financial services is among the lowest in the world. In 2005, there were only one million bank accounts and 780,000 customers of microfinance institutions (MFI's), or penetration rates of only 3 percent and 2.2 percent of the population, respectively. Banks have tended to concentrate in the most profitable activities, a phenomenon which is not unique to the CEMAC region, but which is exacerbated by high operating costs of banks in the region resulting from low population density and the low income of the population. Lack of financial data on potential borrowers and of credit registries, and weaknesses in the legal and judicial environment discourage the expansion of the customer base and lending to the private sector. Monetary policy has also not encouraged financial deepening: interest rate controls did not encourage banks to mobilize savings or take risks by expanding lending. Few institutions provide financial services to small and medium enterprises (SMEs). Adequate policies which encourage greater financial sector integration are likely to contribute to increased access to finance, and the financing of transnational projects. The financial system consists of one Central Bank, BEAC, 33 commercial banks; one development bank, 16 non-bank financial institutions, more than 1000 microfinance institutions most of which are grouped in two large federations/networks, and 36 very small insurance companies.

9. BEAC is charged with monetary policy for the region, which it conducts in the context of a single currency and a fixed exchange rate against the Euro. The large fiscal surpluses generated by oil producing CEMAC countries, particularly Equatorial Guinea, has led to sharp increases in deposits in commercial banks which has brought to the forefront the need to develop a coherent monetary policy that addresses the liquidity issue. Liquidity management has been difficult because governments have been slow in centralizing their accounts in a Treasury Single Account in the Central Bank as is common practice. BEAC is moving towards a greater reliance on market-based instruments for the conduct of monetary policy and public debt management. As a first step in promoting a money market, governments are to treasury obligations which will help in liquidity management operations, and adjust the rate it uses for liquidity absorbing operations at least to the level of the European Central Bank's policy rate. BEAC will need to strengthen systems to be able to effectively carry out its planned monetary policy objectives. The 2007 reforms aim to modernize and improve the governance of BEAC and included: expansion of the management team by incorporating three General Directors; the creation of a Monetary Policy Committee with wide powers; and limitation of the terms of the General Directors. New Statutes were approved which reflect the changes.

10. BEAC has prepared a Strategic Plan which was approved by its Board in March 2008; the implementation of the plan will be supported by the project. The Plan's objectives cover four strategic themes: improving the effectiveness of monetary policy; modernizing and improving BEAC's governance by revising and modernizing its policies and procedures; and enhancing BEAC's role in the region. The Strategic Plan seeks to increase the effectiveness of BEAC's core missions as well as strengthen support activities such as accounting and human resource management.

11. Banks dominate the financial sector and accounted for 87 percent of financial sector assets excluding the central bank in 2005. At the time, 31 of the 33 banks were privately owned,

and highly concentrated in four out of the six countries, with banks in Cameroon and Gabon accounting for three-fourths of total banking assets. Public sector participation in the assets of banks declined from an average of 24 percent of capital in 2000 to 20 percent in 2005. The presence of financial groups in several countries contributes to sector integration. Two foreign banks have each established a presence in three CEMAC countries, and together represent about one-third of the sector. Three other banking groups are present in three or more countries. Regulations which make it possible for regional authorities to grant one license for banks to operate in all countries were approved in 2000 to facilitate cross-border activities of banks. However, no application has been filed, due in part to the reluctance of national authorities to allow new banks to compete with existing ones. The banking sector is shallow, its sources of funding poorly diversified, and lending opportunities limited. Banks' total assets amount to only 16 percent of GDP, and lending to the private sector to 7 percent (15 percent for sub-Saharan Africa). Volatility of deposits has increased in some countries, and highly concentrated deposits consisting mostly of demand or short-term deposits limit the supply of long-term financing.

12. Non-bank financial institutions represent only 6 percent of financial assets and MFIs control less than 4 percent of deposits. The microfinance sector provides uneven access across the CEMAC region: it is well developed in Cameroon, Congo, and Chad, moderately developed in the CAR, and incipient in Gabon and Equatorial Guinea. There are some 20 federations and networks, more than half of them in Cameroon, which group the majority of MFI's and seem to have generally sound management and good financial results but they are fragile, especially given their rapid growth. In addition, there are several hundred small microfinance institutions, very few of which seem profitable. Links between banks and MFI's are emerging.

13. The Development Bank of Central African States (BDEAC) remains the largest non-bank financial institution. BDEAC was established in December 1975 and started operations in January 1977 with the objective of financing economic integration projects in the region and feasibility studies for regional projects. The Bank has an authorized capital of CFA 81,450 million of which 32.5 percent has been paid in. The Bank faced serious financial difficulties starting in the mid-eighties, principally because of widespread defaults by BDEAC member countries as oil prices, government revenues and economic activity declined. Less than prudent lending practices also contributed to the portfolio problems. BDEAC suspended lending activities in 1992 and began a process of consolidation which focused on loan recovery and staff reductions.

14. In 2002, the appointment of a new president, and a growing demand for BDEAC services in the region led to a restructuring process which was carried out in 2003-2007. The restructuring plan sought to strengthen corporate governance, reduce political influence in decision-making bodies, and improve risk control mechanisms. New statutes were adopted in 2002 which allowed for an increased participation of non-member countries in the capital of the Bank. The objectives of the 2003-2007 plans were partially achieved. There has not been a reduction in the participation of member governments, and these still hold more than 75 percent of the shares, discouraging the entry of new private shareholders. The objectives for resource mobilization were substantially met (80 percent of the objective reached) although BDEAC was unable to increase lending as programmed (only 46.3 percent of objective), to a large extent because the planned modernization of operational procedures including the updating of its

management systems moved slowly. Although the quality of staff has improved, there is still a significant mismatch of skills, and BDEAC staff needs to be trained in modern banking techniques.

15. In spite of its regional mandate, at the end of May 2006, only about one third of BDEAC's portfolio was in regional projects. The portfolio is heavily concentrated in Cameroon and Chad with commitments in these countries accounting for 65 percent of total commitments net of cancellations.

16. Regional authorities have designated BDEAC as a primary channel for financing integration, and the administrator of the Community Development Fund (FODEC). BDEAC has prepared a Strategic Plan which will be supported by the proposed project. The objective of BDEAC's five-year program is to modernize and strengthen the institution so that it can increase its role in promoting economic development and regional integration. Specifically, the program will enable BDEAC to increase financing of regional projects and recycling of surplus oil revenues for investments in the region. The program will focus on strengthening governance, operations and financial management of BDEAC.

17. Two independent and parallel securities exchanges are being developed in the region, despite potential legal and financial conflicts: Cameroon is promoting the Douala Stock Exchange (DSX), and a regional securities exchange is being established in Libreville following a decision of the Conference of Heads of States. The Financial Sector Assessment recommended that the two exchanges be merged and responsibility for its supervision unified in order to improve their viability. Options for integration (at least partially as in cross listing) with other financial markets, particularly those in Western Africa or South Africa would need to be considered. COSUMAF, the *Commission de Surveillance du Marché Financier de l'Afrique Centrale*, was established in 2003 with the function of regulating the market, and has begun preparation of the regulations to govern the exchanges and has developed a Business Plan for the next five years. A small study designed to define the approach to consolidate the exchanges could be financed under the project.

18. The prudential framework for the banking system has been strengthened, but is not yet in line with requirements. Regulations on the minimum capital adequacy ratio, large exposures, and internal controls were adopted in 2001 and a prudential framework for microfinance was introduced in 2002. COBAC, established in 1990, is charged with preparing regulations applicable to all financial institutions except for the postal system and the insurance sector. It is also charged with supervising these institutions.

19. Compliance with prudential norms is low, although there has been some improvement in recent years. In November 2005, nearly one-fourth of the banks were in violation of the minimum capital adequacy ratio, and nearly three-fourths did not comply with the limits on large exposures. The COBAC Secretariat is severely understaffed and this has resulted in delays in drafting implementing regulations for norms that have been passed; insufficient on-site inspections, and flaws in off-site supervision. COBAC has prepared a five-year institutional-strengthening plan to be financed under the project. COBAC's plan incorporates most of the recommendations of the Regional Financial Sector Assessment, and aims to increase the

institution's independence by reducing the role of the finance ministries in the licensing process, and ensuring a greater diversification of the COBAC's commissioners. The project includes an action plan to strengthen COBAC's management and supervisory systems and staffing.

20. The regional framework for the insurance sector, adopted in 1995, represented an improvement over earlier norms, but there is evidence that its application has not been strict. The causes for the weak application of norms includes insufficient resources provided to the CIMA secretariat, the regulator, and political pressures on its staff (most of them are on secondment from their national authorities), and loopholes in the regulatory framework. The CIMA secretariat has prepared a plan to increase staffing levels and the capacity of the supervisors and to update the regulations. Support for the insurance sector is expected to be provided by the government of France.

21. The CEMAC regulations adopted in 2003 on a regional legal framework on Anti-Money Laundering and Combating the Financing of Terrorism provide a good legal framework for these activities. The implementing regulations issued by COBAC for the banking sector is a significant step forward, but the framework remains largely ignored outside of the banking sector. The predominance of cash-based transactions in the region makes it important to foster the implementation of obligations outside of the financial sector. GABAC was created in December 2000 to help implement the legislation; the proposed project will help make the institution operational.

22. The legal framework for credit is governed by uniform OHADA legislation which is relatively modern, but perceived as complicated and not always implemented. OHADA has also established an accounting framework for the region which is also expected to be revised. Support for OHADA, will be provided by the Foreign Investment Advisory Service (FIAS) of the World Bank Group.

23. A regional payment system project under the aegis of BEAC and financed by the World Bank was launched in 2003 to make the national and regional payment systems more effective and secure. The key features of the system are in place and a payment system Directorate responsible for the implementation and supervision of the new system was created in BEAC as part of its 2007 reorganization.. The proposed project would support activities designed to expand the system.

24. The proposed project will support strengthening of key CEMAC institutions. Some institutions dealing with critical economic issues, such as the legal and accounting frameworks, which have a wider membership in the region, will be supported by FIAS and possibly other Bank operations, as well as other donors. Under the proposed project, CEMAC institutions assume part of the financial and all the administration costs, and would not be suited to address issues affecting institutions with a broader membership.

B. Rationale for Bank involvement

25. A Bank assistance strategy for the CEMAC region was outlined in a Regional Integration Assistance Strategy (RIAS) of January 2003 (Report No.25328). The strategy aimed

at strengthening the ongoing integration in the Community, and was based on the premise that regional integration and cooperation can reduce poverty by strengthening the links among the poorer landlocked countries and their more prosperous coastal neighbors, and more generally by helping to establish the basis for faster economic growth. Priority areas in regional integration were macroeconomic policies, trade policies, financial sector integration, and the business environment. A 2006 report which assessed the strategy, found that, on the whole, it remains relevant. The report noted that the large oil windfalls that have resulted from the increase in oil prices suggested that more emphasis needs to be placed on the management of these resources and their use for generating growth within CEMAC.

26. A Regional Integration Strategy (RIAS) for Sub-Saharan Africa which confirms the key premises of the 2003 document for Central Africa was submitted to the Executive Directors in March 2008 (Report No. 43022). The second pillar of the Regional Strategy aims to strengthen institutional cooperation focusing, among others, on developing regional financial markets and related institutions, and establishes capacity development of regional institutions as a cross-cutting objective. The project is an important vehicle for addressing these priorities and is intended to have a catalytic effect on the economic and financial system of Central Africa, among others, on the system for recycling of oil revenues.

27. In addition to the regional strategy, the Country Assistance Strategies (CAS) for the CEMAC member countries recognizes the importance of integration and the need to efficiently recycle oil revenues. The Cameroon CAS is explicit in noting the importance of improving transit corridors and other infrastructure investments. The Congo Interim Strategy Note stresses the role of regional economic management while the Gabon CAS emphasizes the need for Gabon to exercise its leadership and honor its commitments to the sub-region. The Chad CAS emphasizes trade and transport facilitation and focuses on a Diagnostic Trade Integration Study (DTIS) to identify obstacles to regional integration, while the Central African Republic Interim Strategy Note (ISN) advocates for a regional transport program.

28. The World Bank is also increasingly focusing on a regional approach to member countries' development. In the financial sector, the World Bank has financed the establishment of a regional payments system, and supported a single approach to banking restructuring, microfinance regulation and the development of capital markets. The World Bank intends to work closely with the International Monetary Fund (IMF) and other donors involved in regional integration, notably the European Union, the African Development Bank and the government of France, to ensure harmonization of activities carried out under the project. The project draws on the CEMAC Region Financial Sector Assessment Report (FSAP) prepared by the IMF and the World Bank. It is expected that donor partners such as the European Union, the African Development Bank and the government of France will participate in financing activities associated with the project. Preparatory work on project institutions such as BDEAC is being coordinated with donors working with those institutions.

29. Regional institutions, including BEAC, COBAC, BDEAC, COSUMAF, GABAC and the CEMAC Secretariat have expressed strong interest in World Bank assistance, particularly in the area of technical support, as have the member countries. Bank assistance which can draw from experience elsewhere is viewed as especially important given the need to manage the

liquidity of the region. The Bank has a long tradition of providing support to regional institutions in Africa and elsewhere, and in handling problems associated with temporary surpluses, including the oil boom of the seventies and eighties; it will bring this experience to bear in the design and implementation of the project. The Bank has supported the Development Bank of West Africa (BOAD) and worked closely with the two Franc Zone African regional central banks for the last twenty years, including the provision of IDA credits to BCEAO (the West African Central Bank), BEAC and BOAD. The proposed project, which would build on the good experience of the Bank with BEAC in the regional payments project, would be the first two possible operations in support of regional institutions and investment. The recent evolution in the sub-regional assistance strategy points to a forthcoming operation to provide investment financing resources to BDEAC. This operation is expected to follow the proposed project some 12-18 months later and/or once BDEAC has reached some initial milestones in its readiness to intermediate a line of financing from the World Bank (e.g. upgrading of project evaluation capacity).

30. Support to regional institutions will be based on strategic and business plans prepared for each institution, which were analyzed in the context of the preparation of the proposed project. Analysis conducted in connection with the preparation of the project confirmed that BEAC is a well organized institution, and able to carry out its obligations under the project.

31. The proposed Credit will be made to BEAC; no parallel guarantee by CEMAC members will be required. IDA's Articles of Agreement allow it to lend directly to a regional institution without a parallel government Guarantee, at its discretion. Assessments made of BEAC conclude that it is financially solid and has the capacity to borrow from IDA and is the Borrower for the ongoing Regional Payments System Credit (Cr. 3704). BEAC will be responsible for overall implementation of the project; and is the logical choice as the borrower for this credit. Four of the six countries are IDA eligible. The other two, Gabon and Equatorial Guinea are International Bank for Reconstruction and Development (IBRD) countries. It is nevertheless proposed that Bank assistance be under IDA terms, as:

- The IDA eligible countries account for 95 percent of the CEMAC population.
- The assistance provided under the project is of the nature of a public good, benefiting the economy at large. The reforms envisaged will facilitate economic and trade relations in the sub-region and strengthen regional integration, and the benefits will be particularly important to the population in the poorer landlocked countries. Work envisaged under the project on microfinance will be particularly important in protecting the savings of the poor.
- Because of its nature, the proposed project must be implemented at the regional level.
- The Regional Payments Project approved by the Board in 2002 is similar in nature to the proposed project and constitutes a precedent for this operation.
- The two IBRD countries have higher GDP per capita because of their oil production, but have very high levels of poverty

C. Higher level objectives to which the project contributes

32. The project will promote economic, including financial, integration of the economies of the CEMAC region thus contributing to faster economic growth and poverty reduction. It will strengthen key regional institutions, thus enabling them to perform more effectively their role in promoting integration. In addition, through its support in strengthening financial sector policy making, developing financial instruments and improving BDEAC capacity, the project will promote a sounder, deeper and effective financial sector which will encourage the recycling of surplus oil revenues in the region and their investment in regional projects. Lastly, implementation of the project will require close links among multiple regional and national officials and thus will act as a catalyst for closer cooperation among key actors in the sub-region, a benefit that is already apparent in the work on project preparation.

II. PROJECT DESCRIPTION

A. Lending instrument

33. The project will be financed by a Specific Investment Loan (SIL). The project will be financed with IDA financing in the total amount of SDR 31.9 million (US$50 million equivalent in the form a Credit in the amount of SDR 20.4 million (US$32 million equivalent) and a Grant in the amount of SDR 11.5 million (US$ 18 million equivalent). This is the most appropriate instrument to finance the advisory services, training and equipment, materials and supplies required in support of the reforms of CEMAC institutions.

B. Project development objective and key indicators

34. The project aims to strengthen Central African regional institutions so that they can fulfill their mandates to encourage an expanded, better governed regional market, and a more transparent, better regulated and more competitive financial system. This will facilitate the re-utilization of oil revenues for investment in Central Africa. The project supports programs approved by the member governments designed to improve the efficiency of regional institutions. This will be accomplished by strengthening regional institutions. Project outcome indicators are given in Annex 3 and include increases in the percentage of foreign reserves managed regionally by BEAC, growth of investment in regional projects (primarily infrastructure investments), and increases in the percentage of banks meeting key prudential norms.

C. Project components

35. The Project supports programs designed to improve the effectiveness of six regional institutions. The project components are summarized in the paragraphs that follow and detailed in Annex 4 to this Report. IDA will finance advisory services, training, equipment, software, hardware, materials and supplies required to carry out the activities described in each of the components. The reforms envisaged as well as their analytical underpinning are based on the

CEMAC Regional Financial Sector Assessment (FSAP) carried out by the World Bank and the IMF in 2006. They also take into account follow-up work to the FSAP carried out by regional institutions, the World Bank and the IMF. Preparatory work for the BDEAC program was also financed by the African Development Bank (AfDB) and the *Agence Francaise de Developpement* (AFD) while preparatory work for the BEAC and COBAC components was financed by the Bank under an Advance under the Project Preparation Facility (PPF) approved in 2006.

Component 1 – Strengthening the Central Bank-BEAC (IDA financing US$14.5 million credit)

36. The project will support the implementation of the Strategic Plan of BEAC (*Banque des Etats de l'Afrique Centrale)* approved in 2008 and which covers four strategic themes: increasing the effectiveness of monetary policy; modernizing BEAC's operations; improving BEAC's governance and its policies and procedures; and enhancing BEAC's role in the region. The strategic plan aims to the effectiveness of BEAC in carrying out its core missions, namely the definition and implementation of monetary policy and the management of foreign exchange reserves, and of the payments system. It also seeks to strengthen support activities such as BEAC's training programs and telecommunications/information systems. The Strategic Plan is in line with the recommendations of the Regional FSAP and will entail reforms both at headquarters in Yaoundé and in BEAC offices in each of the member countries.

37. The project will support actions to increase the effectiveness of **monetary policy** by adapting it to address the system's current excess liquidity; improving the research function and statistical base and by putting in place new policy instruments (government paper) which will also help develop regional securities markets. Activities envisaged, include, among others (i) refining monetary programming by updating the methodology and introducing it at the regional level; (ii) strengthening the statistical base for policy-making; and (iii) introducing government paper. In addition, work launched on a credit bureau (*Centrale des Risques*) and a system consolidating financial statements for key enterprises (*Centrale des Bilans)* will be completed.

38. The project will also support BEAC actions to improve **reserve management**, through measures to optimize the return on investments, and consolidate management of monetary reserves and gold stocks. Activities include analytical work to determine an appropriate asset allocation of reserves and to expand the range of investment instruments used. The establishment of a specialized documentation center is also envisaged.

39. In addition, the project will also support measures to encourage the use of the **regional payments system** to expand access to financial services via banks and microfinance institutions. Activities include study and implementation of measures to: (i) simplify access to the system; (ii) encourage the use of the systems by microfinance institutions; (iii) discourage paper-based transactions and encourage electronic means of payment; and (iv) introduce a system to track "incidents" of payments.

40. The project will also support improvements in **support activities**, notably human resources management, telecommunications/information systems development, and its external

relations function. Key elements include: (i) developing training and human resource development systems; (iv) improving telecommunications network and information systems, including definition of an information master plan; and (vi) strengthening competencies in the departments/units dealing internal controls.

Component 2 – Encouraging Regional Investment Financing

Subcomponent A: BDEAC (IDA financing US$9 million credit)

41. The project aims to support BDEAC, (*Banque de Développement des Etats de l'Afrique Centrale*), implement its business plan for the next five years. BEAC has been designated by member governments as the main vehicle channel investment financing in the region and is being restructured. The objective of BDEAC's business plan is to modernize and strengthen the institution so that it better performs its functions of promoting economic development and regional integration. The program aims to improve governance, project evaluation and portfolio management; financial management; and support activities. The following will be carried out, among others: (i) strengthening policies, procedures and internal controls (lending, portfolio management, safeguards, financial auditing); (ii) strengthening project evaluation and portfolio management by implementing new policies and procedures and improving staff competencies; (iii) putting in place new policies on investments, asset-liability management; treasury operations; and risk assessment of financial intermediaries; (iv) definition of a strategy for resource mobilization; (v) establish guidelines for auditors in line with international practices; (vi) improving management tools and designing and implementing a medium-term information systems plan; and (vii) preparing and putting in place a comprehensive training program to upgrade staff skills.

Subcomponent B: Feasibility and Pre-investment Study Fund (IDA financing US$6 million credit)

42. Investments in regional projects, particularly infrastructure, are central to integration and growth in the CEMAC region, but have been slow to materialize, in part because of their size, but also because of the risk factors associated with the region which is still perceived as a "high risk high transactions cost" area by the private sector in spite of substantial reforms over the past decade. The project would support a fund that will help finance feasibility and pre-investment studies. The fund would be managed by BDEAC; BDEAC does not have appropriate resources to finance the studies. The studies would be carried out at the request of an investor operating in the region under a public-private partnership, a member government, a regional organization, or a local government in the region. If projects translate into BDEAC financing, the cost of the study would be refinanced under the BDEAC loan. If this is not the case, the portion of the cost of the study financed by the credit would be absorbed by BDEAC. The feasibility work to be carried out under the project is a necessary prior step for the adequate implementation of a regional investment financing program. The proposed study fund is not a line of credit; the criteria under Operational Policy 8.30 do not apply.

Component 3 - Improving Regional Economic Policy Coordination, Financial Sector Supervision and Financial Integrity

43. The project aims to strengthen institutions which focus on regional economic policy coordination, financial sector supervision and financial integrity. Activities are discussed below.

Subcomponent A: CEMAC Commission (IDA financing US$3 million grant).

44. The project aims to strengthen the CEMAC Commission *(Commission de la Communauté Economique et Monétaire de l'Afrique Centrale)* so that it is able to fulfill its mandate. Specifically, the project will support activities that aim to facilitate policy convergence and trade and financing in the region; improve information to facilitate policy making and investment, and facilitate infrastructure development. The following activities will be carried out: The project will finance advisory services, materials, supplies, training and hardware to support the following activities: (i) harmonization of procedures for the elaboration of economic statistics; (ii) implementation of an analytical tool to assess practices in transport corridors; (iii) establishment of a data base for CEMAC ensuring cooperation with BEAC and BDEAC; (iv) implementation of a training program to upgrade CEMAC Commission staff skills.

Subcomponent B: Supervision of Financial Institutions (IDA financing US$7 million grant)

45. The project aims to help strengthen COBAC (*Commission Bancaire de l'Afrique Centrale*) so that it can perform its functions of ensuring the stability of banking and non-banking financial institutions and protecting depositors. COBAC has prepared an action plan which is anchored on the recommendations of the Regional FSAP. The project will focus on upgrading the regulatory framework and the supervision of banks and microfinance institutions. The following activities will be carried out: (i) revision of banking prudential regulations; (ii) upgrading the banking supervision system; (iii) improvements in the regulation, and designing and putting in place a system for supervision of microfinance institutions; (iv) putting in place a management information system adapted to COBAC's requirements; (v) carrying out studies promoting banking sector integration and development; and (vi) implementing a staff training program. Preparatory work under this component, including the definition of microfinance accounting was financed under the Project Preparation Facility. The IMF and the government of France provided assistance in the initial organization of COBAC and staff training.

Subcomponent C: Supervision of Financial Markets (IDA financing US$2 million grant)

46. COSUMAF (*Commission de Surveillance du Marche Financier de l'Afrique Centrale),* the regulatory agency charged with supervision of the financial market, has begun preparation of regulations to govern the exchanges and has developed an ambitious Business Plan covering the period 2007-2012. However, given the lack of proven viability of the two parallel markets, it is not evident if the project should support the development of COSUMAF under the current institutional framework. Therefore, it is proposed that for the time being, IDA financing be limited to a study on the feasibility of the financial market, targeting harmonization of the legal and regulatory frameworks and the technical interconnections between the existing exchanges. Additional IDA financing would be subject to agreement on the restructuring of the markets, in accordance with the recommendations of the study.

Subcomponent D: Financial Integrity (IDA financing US$2 grant)

47. The project will support GABAC (*Groupe d'action Contre le Blanchiment d'Argent en Afrique Centrale)* which has elaborated an action plan during project preparation. The project will support GABAC to carry out the following activities in its action plan: (i) a regional public information campaign on money laundering and financing of terrorism to make stakeholders, including senior government officials, aware of the policy issues, existing legislation and national requirements; (ii) updating as needed the legislation and regulations applicable to money laundering/combating financing of terrorism; (iii) strengthening the regulatory framework by GABAC's General Secretary by, among others, establishing appropriate evaluation methodology and operational procedures, carrying out staff training, development of information systems, and necessary communications facilities with national Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) authorities.

Component 4: Support for Project Implementation (IDA financing US$3 grant)

48. The project will support the regional coordination team in BEAC as well as technical assistance as required for project implementation.

D. Lessons learned and reflected in the project design

49. In preparing the proposed project, the team has drawn on lessons learned from past experience with financial sector and regional projects, including the findings of the 2007 assessment of regional programs prepared by the Independent Evaluation Group (IEG), and the 2008 evaluation of the Payments System Project for the West African Central Bank (BCEAO). Lessons reflected in project design are summarized below.

- The need to have **active participation of stakeholders**, both in governments but also in civil society has been taken into account in project design. All agencies involved in the project have actively participated in its preparation and it is expected that the consultative and implementation arrangements developed during the project preparation as well as the key team members will be part of the implementation team, taking into account the experience in regional projects that consultation during implementation is key to success and continued buy-in. The project will help implement reforms which have been extensively discussed in the region and have buy-in by national and regional authorities. A consultation process on new regulations exists in the region and will be applied for regulations developed in the context of the project.

- In a multi-component project, **coordination** in implementing individual components is essential. Considerable effort has been devoted during preparation to build an organizational structure that addresses project requirements. The organizational structure provides for a platform to resolve conflicts among countries and project institutions.

- The scope of the program matches the national and regional **capacities**. A strong project team which includes representatives from member institutions has worked on preparation and is expected to continue during implementation. National staff involved in regional integration issues (particularly financial) is among the most competent in the region which will help in project implementation The implementation arrangements have been worked out in detail with all participating institutions and will be reflected in the project manual which is under preparation.

- Thorough **analytical work** is required to ensure the soundness of design. The FSAP, carried out by the Bank and the IMF in 2006, provides the analytical underpinning for the design of many aspects of the project. The project also drew from other analytical work supported by the Bank and other donors such as the Audit of CEMAC institutions financed under the Bank's Institutional Development Facility, and assessments of BDEAC carried out by the Bank and the AFD.

- Reforms of institutions in general and financial sector reforms in particular **take time,** as they involve development of competencies which are often not available locally. The project has been designed taking this into account; implementation is expected to take five years.

- The project components have been designed so that there is **flexibility** to deal with unexpected developments such as studies results, technology changes or higher costs, a lesson drawn from the West African Central Bank project. An annual review will permit a vehicle for discussion of developments and to introduce changes if needed prior to the mid-term review.

E. Alternatives considered and reasons for rejection

50. During project preparation, consideration was given to including a line of credit or a guarantee facility to support regional investments and help catalyze oil revenues to investments. While this type of financing is needed, it was decided that the investment component of the project should be included as a separate operation which would follow the proposed operation. The timing would be linked to the capacity of BDEAC and the estimated financing requirements. Phasing the support for investment financing would allow time for the BDEAC strengthening program to advance, to develop the appropriate modalities to be applied in investment financing and for the necessary feasibility work of infrastructure projects to be carried out. The feasibility studies are included in the proposed project. Also during preparation, participating institutions, including BEAC, requested the inclusion of support to COSUMAF. Given the potential development of two exchanges which would not be justified, the Bank determined that support for COSUMAF would be contingent on a decision to create a unified market. Consideration was also given to support other regional institutions such as OHADA which seeks to standardize commercial law, CIMA the insurance regulator, and for SYSCOA, dealing with regional accounting standards. The membership of the institutions is broader than the CEMAC countries and it was determined that it would not be feasible to include support for them under the project even though their activities are critical to regional economic integration and the financial sector in particular. However, support to these institutions is expected to be provided by other institutions including FIAS, which will be assisting OHADA.

III. IMPLEMENTATION

A. Partnership arrangements

51. The project was designed and will be carried out in close collaboration with other donors involved in Central African integration issues. Specifically, the BDEAC business plan was discussed extensively in donor meetings organized over the past two years, and AFD and the African Development Bank are approving financing totaling US$2.0 million to the BDEAC program. Support for the CEMAC Commission will be closely coordinated with that of the EU.

B. Institutional and implementation arrangements

52. The project will be implemented over five years. The overriding principle guiding the institutional and implementation arrangements is to ensure that operational functions of each implementing institution are strengthened. To this end, BEAC will have overall responsibility for project coordination and for the technical aspects of project activities relating to BEAC while other institutions will be responsible for the technical aspects of implementation of their respective components. BEAC will also be responsible for the overall financial and administrative aspects of the project, including disbursements and procurement for all institutions. The procurement and disbursement functions may be delegated to some institutions such as BDEAC which will need to develop competencies in these areas in order to carry out their institutional mandate. Project arrangements will be reviewed and adjusted as necessary during project implementation. Given the dynamic context of the Central African reform program, the project has been designed to ensure flexibility in the support to be provided. A comprehensive mid-term review of the project will be carried out 24 months after Credit effectiveness. During the mid-term review, an assessment will be made of what institutional arrangements and activities are working well and which require modifications, and the needed adjustments will be introduced. In addition, annual reviews would be conducted by project participants in the first quarter of each year to coincide with the first BEAC Board meeting of the year. A work program for the year will be agreed at that meeting.

53. A Steering Committee (*Comité de Pilotage*), chaired by the Governor or the Vice-Governor of BEAC and consisting of the heads of all participating institutions will provide general policy guidance. A Project Monitoring Committee (*Comité de Suivi*), chaired by the Director General of BEAC responsible for studies, finance and international relations and consisting of representatives of all participating institutions will follow up on project activities. The Project Monitoring Committee will, among others, (i) approve annual work plans and procurement plans; (ii) review progress in project execution through, among others, project indicators and the conclusions of financial and operational audits; (iii) maintain relations with donors which are participating in the project and (iv) discuss and present proposals to the Steering Committee on matters which affect the program.

54. BEAC has established a Financial Institutions Reform Management Unit (*Unité de Gestion de la Réeforme des Institutions Financières* de la CEMAC –UGRIF) which is charged with day-to-day coordination and administrative functions of project preparation and will be charged with the coordination and administrative functions during project implementation. UGRIF is under the responsibility of the Director of External Relations of BEAC. UGRIF staff will include a financial management specialist, an accountant, a procurement specialist a monitoring and evaluation specialist and an informatics specialist. The Deputy Director of the External Financial Relations Directorate has coordinated project activities during project preparation and is expected to be appointed Project Coordinator prior to credit effectiveness. The process of selection of the financial management specialist and of the procurement specialists is advanced. BEAC has implemented other World Bank projects. UGRIF staff will receive specialized training in such areas as procurement and disbursements as required.

55. Each implementing institution will be charged with implementing its component. The activities will be carried out by the departments in each institution which have the functional responsibility for the task. To ensure quality, each institution will prepare the terms of reference for consultants that will work on their components, including the required qualifications of the consultants; the concerned institution will also prepare the technical specifications for the information systems and goods to be procured. For complex technical tasks, such as those associated with some of the information systems tasks, specialized consultants will be recruited to assist the agencies in preparing terms of reference and specifications. One staff in each institution, normally the representative of the institution in the Project Monitoring Committee, (Project Officer) will be responsible for coordinating the agency's project work and liaising with BEAC.

56. Some institutions, such as BDEAC, have had experience in successfully implementing investment programs, while others, such as GABAC are relatively young and have had limited experience. The project includes selective implementation support for agencies which require it. To ensure coordination, a management information system which links the different institutions and enables them to exchange data and information will be put in place and staff in each institution as well as in BEAC trained in its use. BEAC is linked with its country branches, and the project information system will complement this link. The capacity of all implementing agencies will be strengthened. A Project Operations Manual, which will spell out implementation arrangements, has been prepared. The Manual will include a Project Implementation Plan. The plan will be updated yearly and includes, among others, guidelines on all periodic reporting, including procurement reporting, and monitoring arrangements. Details of project implementation arrangements are given in Annex 6.

57. BEAC would be the borrower for the IDA Credit and administer the IDA Grants. It would assume the financial obligations associated with IDA financing for activities in support of BEAC and COBAC, and would borrow IDA resources required to support BDEAC. BDEAC will be responsible for reimbursing BEAC for the IDA funds used on its behalf. BEAC will charge a small fee to BDEAC for administering the funds destined to it. Financing for CEMAC, COSUMAF and GABAC will be on a grant basis. BEAC will administer the funds to support all project institutions. Subsidiary Agreements spelling out the obligations of each institution will be signed between BEAC and COBAC, CEMAC, COSUMAF, and GABAC. The agreement with BDEAC will be a condition of Credit effectiveness. Agreements with CEMAC, COBAC, COSUMAF and GABAC will be conditions for disbursement for the financing for those institutions.

C. Monitoring and evaluation of outcomes/results

58. The Monitoring and Evaluation (M&E) system is based on the agreed Results Framework and monitoring arrangements (see Annex 3). UGRIF will have responsibility for coordinating M&E activities while data collection and monitoring will be the responsibility of each implementing institution. The relevant departments of each implementing institution will be responsible for data collection, management and reporting of their respective component and subcomponents.

59. UGRIF will be charged with consolidating information and data received from each of the agencies. The Project Officer in each executing agency will be responsible for consolidating information in his/her agency and sending it to UGRIF. Reporting will be done on a quarterly basis. The quarterly report (table) will include (i) the activity indicator; (ii) the status of the indicator (say categories 1, 2, 3 with three being fully achieved). If an indicator is not achieved (category 1), the performance is "off-track" and there is a risk that the agreed target will not be attained. If this occurs, the agency Project Officer and the department concerned will prepare a plan with corrective actions to ensure that the agreed result is attained. BEAC will prepare a quarterly action plan which consolidates each agency plan and noting the persons responsible for taking the required actions.

60. As soon as the Financing Agreement is effective, all agency Project Officers will be trained in LPPMS in order to integrate the project performance indicators into the M&E system. This will facilitate access to project execution data and will enable potential problems can be identified expeditiously.

61. The project performance reports will be sent to the BEAC Project Coordination Unit on a quarterly basis. It will consolidate the data in a concise M&E report which will be submitted to the Project Monitoring Committee for review and transmitted to the Project Steering Committee for information. The M&E reports will assess achievements against the programmed indicators.

62. In addition to the M&E reports, each agency will be responsible for updating the Project Implementation Plan (PIM), including the procurement every six months.

D. Sustainability

63. The project supports an ambitious regional plan designed to modernize the institutional framework of CEMAC, as well as the implementation of key reforms in the financial sector discussed in the context of the Financial Sector Assessment Program prepared by the IMF and the World Bank. Thus, a high degree of commitment is expected in the implementation of project activities.

64. The program is demand driven; project components have been designed following analysis of needs in each of the participating institutions, which have been actively involved in project preparation. The establishment of an inter-institutional committee to coordinate preparation in September 2006 and an administrative unit in BEAC has facilitated the participatory process. The agencies involved in the project have all sought Bank assistance; COBAC and BDEAC, particularly, view Bank intervention as central to their success in assuming their expanded roles. The commitment of participating institutions and the fact that the programs have been designed to increase the sustainability of the participating institutions should help ensure the sustainability of the project.

E. Critical risks and possible controversial aspects

Risk		Risk Mitigation Measure
Governments do not remain committed to institution strengthening.	M	Governments have already approved far reaching changes to improve regional institutions and the institutions' reform programs.
Political problems make work difficult in a member country.	M	Project focuses on regional institutions, and most activities could be implemented even if political problems affect one country. Political problems have not typically affected the day to day operations of regional institutions unless the problems are in the host country of institutions with a single office. BEAC and BDEAC, the key institutions in the project have put in place continuity of operations plans. Moreover, BEAC has offices in a number of countries and BDEAC is expected to open them in 2009.
Project involves agencies located in six countries making coordination difficult	M	Procedures are being established to ensure communication through the BEAC internal systems which will help ensure speedy communications. Meetings of senior staff will be scheduled to coincide with other regional meetings.
Project implementation suffers from lack of institutional capacity.	L	An institutional strengthening program will be put in place to help build competencies in participating institutions; targeted support will also be provided as needs arise. Moreover, BEAC (which has a solid track record in implementing a Bank-financed project) is charged with project coordination and managing all procurement and financial matters, including disbursement for the project.
The project team lacks authority	M	The Chair of the Inter-Agency Steering Committee is the Governor or Vice-Governor of BEAC and the Committee consists of the heads of implementing institutions. The Committee will ensure that the project team, which is led by a senior staff member of BEAC has the needed authority.
Retaining skilled staff, particularly in smaller institutions.	M	As part of the development plans being prepared; regional institutions are placing emphasis on training, and are revising their incentive structure to ensure staff retention.
Disagreement on location of the regional stock market persists.	M	The project will only support COSUMAF if there is is feasible to merge the existing exchanges.
Overall Risk Rating	**M**	

F. Loan/credit conditions and covenants

Prior to Effectiveness:

(a) BEAC has adopted the Project Operations Manual in form and substance satisfactory to IDA

(b) The Steering Committee, comprising of the Governor or Vice-governor of BEAC as chair and the head of each of the other institutions participating in the Project, has been established.

(c) The Monitoring Committee, comprising the Director General of BEAC responsible for studies, finance, and international relations as chair and a representative from each of the other institutions participating in the project, has been established.

(d) The Project Coordinator has been appointed.

(e) BEAC and BDEAC have signed a satisfactory agreement spelling out the obligations of each institution under the project.

Disbursement Conditions:

(a) Financing for the securities market besides the initial feasibility study would be subject to the study being carried out in a manner satisfactory to the Association and the conclusions of the study on the restructuring of the financial markets have been approved by the Association.

(b) Financing for the COBAC, CEMAC, COSUMAF and GABAC subcomponents will be subject to signature of satisfactory agreements between BEAC and each of the institutions spelling out the obligations of each Implementing Institution under the project.

Other Covenants:

(a) BEAC to ensure that a financial management system is maintained for the project, audits are carried out, and Financial Monitoring Reports are furnished to IDA in the agreed formats and periodicity.

(b) A mid-term review of the project will be carried out 24 months after Credit effectiveness and annual reviews will be conducted with IDA in the first quarter of the year.

(c) BDEAC accounts will be audited by BEAC's external auditors which are acceptable to IDA in accordance with international accounting and auditing standards, and the report sent to the Bank by June 30 of each year.

(d) BEAC will prepare and send to IDA not later than December 31 of each year, the annual work plan and budget for the project for each subsequent year, except for the first year when it will send it no later than one month after effectiveness.

(e) BEAC will prepare, and send to IDA on or about March 1 of each year, a report on the progress achieved of the project during the preceding period and integrating the results of the monitoring and evaluation activities, and review the report with IDA by May 1 of each year

(f) BEAC will carry out jointly with IDA no later than 24 months after effectiveness a midterm review to assess the status of Project implementation, as measured against the agreed performance indicators. The review will include the results of monitoring and evaluation activities; and annual work plans and budgets;

(g) BEAC will send to IDA three months before the mid-term review a report on the progress of the project, and subsequently take the measures to ensure the efficient completion of the Project and the achievement of its objectives.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

65. The proposed project will help strengthen regional institutions which will contribute to facilitating regional integration and economic growth and help build the foundation for improved financial sector effectiveness. Through improved monetary and reserve policies, the project will expand and unify the economic space across countries which should help encourage investments and cross-border flows. Improved supervision will help create confidence in the banking sector and in a trùly common financial space across borders. Also, by introducing new financial instruments, the project will contribute to capturing an increased portion of regional savings for investment, particularly in much-needed infrastructure. Through reforms in key financial institutions and policies, the project aims to improve access to finance for the private sector, including low-income households. Also, actions taken in connection with the project will result

in a significant improvement of the finances of regional institutions, particularly those of BDEAC.

66. Support to BEAC and BDEAC is based on strategic and business plans prepared for these institutions. Analysis carried out in the context of project preparation confirmed that BEAC is financially solid and is able to carry out its obligations in the context of the project. Analysis carried out in the context of preparation of the project also confirmed that BDEAC is financially solid and in a position to carry out its obligations under the project.

B. Technical

67. The project design draws from relevant analytical work, including the Regional FSAP, and regional and country specific analysis. It incorporates lessons from other Bank Group capacity-building projects, including those contained in the review on the subject by the Independent Evaluation Group of the World Bank. A common problem with capacity building projects has been the absence of a results framework with targets, baseline and monitorable indicators; the project addresses this through a detailed results framework with measurable targets and monitorable indicators. In addition, a monitoring and evaluation specialist and an informatics specialist are being recruited to ensure that communications, including project data is gathered and disseminated among institutions and stakeholders.

C. Fiduciary

68. BEAC will be responsible for the financial management and procurement under the project. BEAC has already successfully implemented a Bank-financed project and will be in a position to carry out its obligations under the proposed project. BEAC is now responsible for the financial management and procurement for activities being carried out under a Project Preparation Facility approved for this project in 2006.

69. A Procurement Specialist has carried out an assessment of the procurement arrangements for the proposed project. A Financial Management Specialist has also carried out an assessment of the financial management and accounting systems and made recommendations on steps to be taken in connection with the proposed project.. These recommendations are reflected in Annexes 7 and 8.

70. Procurement would be carried out in accordance with the World Bank "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 and revised in October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and revised in October 2006, and the provisions stipulated in the Development Credit Agreement. The general description of various items under different expenditure category is given in Annex 8. For each contract to be financed by the credit, the different procurement (goods and non-consulting services) methods or consultant selection methods, prequalification, estimated costs, prior review requirements, and time-frame has been agreed between the Recipient and the Bank Task Team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. To the extent practicable The Bank's Standard Bidding

Documents for goods and Standard Requests for Proposals for Proposals as well as all standard evaluation forms would be used throughout project implementation.

71. The fiduciary assessment concluded that the financial management (FM) arrangements in place at BEAC meet the Bank's minimum requirements under OP/BP 10.02 and are adequate to provide, with reasonable assurance, accurate and timely information on the status of the Project as required by IDA.

72. The overall project risk is moderate from FM perspective given the existence of sound administrative and financial systems within BEAC its proven track record in implementing Bank-financed projects. Furthermore BEAC is enjoying an autonomous status as international organization with its own financial regulations thus it's not directly affected by the governance and public financial management environment of its host country – Cameroon and other member countries.

73. The following FM arrangements will be to be put in place for a smooth implementation of the project:

- The annual work plans and budgets will be developed by UGRIF in collaboration with the implementing institutions then submitted to the approval of the project Steering Committee and IDA.
- While BEAC institutional framework, administrative and financial regulations will apply to the project management, simplified Annex of FM and Procurement procedures specific to the project will be developed and integrated into the Project Implementation Manual.
- Un-audited Interim Financial Reports (IFRs) will be produced quarterly by the project Unit, together with the audited Annual Financial Statements (AFS) required under the Financing Agreement(s).
- BEAC internal audit department, so-called *"Cellule de contrôle interne"*, will include the project activities in its work program for reviews. The project will be audited by the external auditor of BEAC that is acceptable to IDA. The audit reports will be submitted to IDA within 6 months after the end of each fiscal year, i.e. by June 30 of the following year. BEAC audit committee will ensure the oversight of the audit performance and follow up the recommendations.
- The BEAC/CRIS will establish within its own books one (1) XAF-denominated Designated Account (DA) under the IDA Credit and Grant. IDA will make an initial advance disbursement from the proceeds of the credit and/or grant by depositing into the BEAC/CRIS-operated DA. Report-based disbursements will be followed in that actual expenditures will be reimbursed through submission of Withdrawal Applications together with acceptable quarterly IFRs as supporting documentation.
- The BEAC shall open within its own books and operate a Project Accounts (PA) that will form the primary source of financing for project activities. Required counterpart contributions will be deposited into the PA in line with the terms of the financing agreements.

74. The following disbursement Methods may be used under the financing: reimbursement, advance, direct payment, and special commitment. Retroactive financing up to an aggregate amount not to exceed US$4 million equivalent may be made for payments between September 15, 2008 and the date of signing.

D. Social

75. A more efficient financial system will increase access to financial services by the poor. Such access is essential to reduce their vulnerability. Project activities will not have any adverse social effects.

E. Environment

76. The project finances technical assistance, training and equipment, materials and supplies, the provision of which does not have environmental effects. The project is designated a Category C.

F. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[ ]	[x]
Natural Habitats (OP/BP 4.04)	[ ]	[x]
Pest Management (OP 4.09)	[ ]	[x]
Physical Cultural Resources (OP/BP 4.11)	[ ]	[x]
Involuntary Resettlement (OP/BP 4.12)	[ ]	[x]
Indigenous Peoples (OP/BP 4.10)	[ ]	[x]
Forests (OP/BP 4.36)	[ ]	[x]
Safety of Dams (OP/BP 4.37)	[ ]	[x]
Projects in Disputed Areas (OP/BP 7.60)*	[ ]	[x]
Projects on International Waterways (OP/BP 7.50)	[ ]	[x]

G. Policy Exceptions and Readiness

77. The project is ready for implementation and preparatory activities for implementation have been completed. The project does not present policy exceptions.

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

Annex 1: Region and Sector Background[1]

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

1. The CEMAC countries share a common currency, the Central African CFA Franc (CFA), which is pegged to the Euro. In addition, the countries share: (i) a Central Bank – BEAC (*Banque des Etats de l'Afrique Centrale)* the strongest regional institution, which formulates a common monetary policy, and manages the CFA; (ii) a banking supervision commission – COBAC (*Commission Bancaire de l'Afrique Centrale*) which is charged with regulation of banks and other deposit-taking financial institutions, including microfinance institutions; and (iii) a Development Bank –BDEAC *(Banque de Développement des États d'Afrique Centrale),* which has been mandated to promote regional investments; BDEAC is being restructured and has improved its performance following a difficult period in the nineties. Regional institutions have also been established to regulate the regional securities market (COSUMAF) and combat money laundering (GABAC), both of recent creation. The CEMAC countries also share a common external tariff and business laws harmonized under the OHADA initiative *(Organisation pour l'Harmonisation du Droit des Affaires),* common Insurance Legislation, regulations and supervision (CIMA-*Conférence Interafricaine des Marches d'Assurance*). The institutional architecture of CEMAC includes an Executive Secretariat which is relatively new and not strong.

2. Financial markets in the region are not integrated, despite the common currency and comprehensive regional institutional setup. Low intraregional trade resulting partly from inadequate infrastructure limits financial integration. However, the lack of regional inter-bank and debt markets; and the shortage of banks operating across the region, in spite of the introduction of a framework that enables licensing of regional banks, is central to the slow integration of financial markets.

3. Access to financial services is also among the lowest in the world. In 2005, there were only one million bank accounts and 780,000 customers of MFI's, or penetration rates of only 3 percent and 2.2 percent of the population, respectively. Banks have tended to concentrate in the most profitable activities, a trend which is not unique to the CEMAC region, but which is exacerbated by the high operating costs resulting from the low population density and the low income of the population. Lack of financial data on potential borrowers and availability of credit registries, and weaknesses in the legal and judicial environment discourage the expansion of the customer base and lending to the private sector. Monetary policy has also not encouraged financial deepening: interest rate controls do not encourage banks to mobilize savings or take risks by expanding lending. Banks, in fact, tend to set high minimum balances and management fees which discourage low-income individuals to open accounts.

4. Few institutions provide financial services to SMEs. Most of the support SMEs receive is in the form of capacity building and loan guarantees funded by development institutions or governments. Weak management and governance in SMEs, unreliable balance sheets, and the complexity of procedures for recording and enforcing guarantees are the major obstacles to

[1] This Section is based on the findings of the CEMAC Financial Sector Assessment.

increased financing. In addition, few financial institutions seem to have the technical capabilities to assess the risk of SMEs and to design suitable financial services.

5. The financial system consists of one Central Bank, BEAC, 33 commercial banks; one development bank, 16 non-bank financial institutions, more than 1000 microfinance institutions most of which are grouped in two large federations/networks and 36 very small insurance companies. The financial system is dominated by commercial banks, as shown in the table below.

CEMAC - Financial System (as of December 2005)				
	Number	Assets CFAF billion	Percentage Assets	Percentage GDP
Banks	**33**	**3,132**	**87**	**16**
Of which:				
Private	31	3,020	84	15
government	2	112	3	1
Local	8	869	24	4
Foreign	23	2,151	60	11
Non-bank financial institutions *	**17**	**215**	**6**	**1**
Microfinance Institutions	**1,028**	**133**	**4**	**1**
Insurance Companies	**36**	**164**	**4**	**1**
Total Financial System		**3,644**	**100**	**18**
Source: IMF *Financial System Stability Assessment* (COBAC). * BDEAC included in non-bank financial institutions				

BEAC and Monetary Policy

6. BEAC is charged with monetary policy for the CEMAC region, which it conducts in the context of a single currency and a fixed exchange rate against the Euro, free capital movement between countries in the region, but with capital controls with non-CEMAC countries. Since the late nineties, oil producing CEMAC countries have generated fiscal surpluses derived from the rising oil prices. This has led to sharp increases commercial bank deposits as governments have been able to clear arrears and deposited surpluses in the banking system (an increase of 25 percent in 2005). The resulting liquidity of the banking system has brought to the forefront the need to develop a coherent monetary policy that addresses the liquidity issue and to strengthen monetary policy implementation.

7. The regional authorities approved changes in the organization and management of BEAC in April 2007. In addition, a new Governor was appointed and took office July 2007, and new Statutes were approved in September 2007. The 2007 reforms aim to modernize and improve the governance of BEAC and included expansion of the management team from one to four General Directors; an increase in the number of Central Directorates; the creation of a Monetary Policy Committee with broad powers; and limitation of the terms of the General Directors.

8. BEAC formulates common monetary policy targets with the objective of meeting the foreign exchange cover ratio established in the monetary cooperation agreement with France. However, liquidity management has remained largely country-based due to the lack of integration of the money market.

9. The financial relations between the BEAC and CEMAC governments do not ensure a clear separation between money creation and budget financing. At the end of 1999, member governments set the policy objective of phasing out monetary financing ("*avances statutaires*") to governments and to develop Treasury bill markets, and a program to develop treasury bill markets is expected to be implemented in 2009. Excess liquidity resulting from government deposits may have led to risky lending by banks, and the instability of government deposits has placed banking systems at risk.

10. To increase transparency and control over government budget execution, some countries are moving to a Treasury Single Account (TSA). Equatorial Guinea has adopted the principle of a TSA, and a TSA has been operating in Cameroon since late 2005; the only accounts not in the TSA are those of autonomous agencies and those funded by donors. Commercial banks have pressured governments to maintain accounts with them as a guarantee on their advances to them, and the transition to a single treasury account has been slow.

11. In addition to issues relating to government financing, BEAC has not been able to use monetary policy instruments effectively. While the regional monetary program allowed a coordination of monetary and fiscal policy, BEAC did not use it to assess the volume of liquidity to be absorbed, and there is no framework to assess the adequacy of international reserves to deal with oil sector shocks. In the past, the lack of transparency in monetary policy formulation and implementation and the recourse to administrative measures hampered money market development. Monetary policy instruments were used somewhat arbitrarily, at times without reference to clear rules, and transfers abroad were occasionally subject to prior authorizations which are not contemplated in the exchange regulations. The establishment of the Monetary Policy Committee and other reforms introduced in 2007 has contributed to eliminate past arbitrary practices. The BEAC plan calls for new tools to help with monetary programming and reserve management.

12. BEAC is expected to move towards a greater reliance on market-based instruments for the conduct of monetary policy and public debt management. As a first step in promoting a money market, to raise the rate at which it conducts its liquidity absorbing operations at least to the level of the European Central Bank's policy rate. BEAC also proposes to develop a framework to determine the level of international reserves and the level of savings by the oil-producing states which will be sufficient to absorb oil related shocks.

13. The governance of BEAC rests on the Board of Directors (CA) and the Governor. The Board is made up of 13 members appointed by CEMAC countries and France. Prior to the changes introduced in 2007, the role of the governor was more important than the Statutes suggested because the Board delegated the responsibility for the formulation and implementation of monetary policy to the governor and he exercised this function with limited consultation within BEAC. The new Statutes provide for a new organizational structure as well as major

change in its decision-making structure with the establishment of a Monetary Policy Committee. The Committee is in charge of defining the strategy and objectives in monetary policy and reserve management; and of the modalities for policy implementation. The committee includes 14 members, two from each member country and two from France. The first meeting of the Committee took place in January 2008. The 2007 reforms also aim to improve the governance structure of BEAC with the expansion of the management team from one to four and the increase of the Central Directorates. The changes introduced are in line with those recommended in the Financial Sector Assessment and should strengthen BEAC's credibility by increasing the collegiality in policymaking and clarifying the rules for application of monetary policy instruments. The Monetary Policy Committee (MPC) will meet at least four times a year. The proposed project will support the BEAC reform program envisaged in its 2008 Strategic Plan.

Structure of the Financial System

14. At the end of 2005, banks accounted for 87 percent of financial sector assets excluding the central bank. Of the 33 banks in the region, 31 were privately owned, and they were highly concentrated in four out of the six countries, with banks in Cameroon and Gabon accounting for three-fourths of total banking assets. Non-bank financial institutions represent only 6 percent of financial assets, and microfinance institutions (MFIs) control less than 4 percent of deposits. The insurance sector is barely developed, and insurance premiums represent less than 1 percent of GDP. However, the number of companies increased from 29 in 2002 to 36 in 2006, encouraged by the low capital requirements. Three-quarters of the insurance companies are in Cameroon and Gabon. Pension benefits in the CEMAC area are provided by government managed institutions which hold limited volume of assets. There are no securities exchanges in operation but two are being established.

The Banking Sector

15. Financial groups play an important role in the banking sector, and the role of the public sector has declined. The presence of financial groups in several countries has contributed to the integration of the financial sector. Two foreign banks have each established a presence in three CEMAC countries, and together represent about one-third of the sector. Three other banking groups are present in three or more countries. The share of bank capital held by governments declined from an average of 24 percent in 2002 to 20 percent in 2005. With the exception of the CAR and Chad, direct lending to governments is limited, as are the holdings of government securities, with the exception of banks in Cameroon and Gabon. Two-thirds of the banks, representing 60 percent of banking assets, have majority foreign ownership. The "agrément unique" framework was instituted in 2000 to facilitate cross-border activities of banks in CEMAC, but no application has been filed, due to some extent to the reluctance of national authorities to allow new banks to compete with existing ones.

16. The banking sector is shallow, its sources of funding poorly diversified, and lending opportunities limited. Banks' total assets amount to only 16 percent of GDP, and lending to the private sector to 7 percent (15 percent for sub-Saharan Africa). The minimum deposit rate, at 4.25 percent in August 2006, was above market conditions, and this has been an obstacle to financial intermediation, particularly in a context of excess liquidity. In effect, volatility of

deposits has increased in some countries, and highly concentrated deposits consisting mostly of demand or short-term deposits limit the supply of long-term financing. With the exception of Gabon, where 10 percent of deposits must be placed in government securities, banks have few opportunities to invest in securities, and they serve a small number of corporate clients. In that context, the maximum lending rate (15 percent) is low, limits client diversification to SMEs and households, and leads the banks to boost profitability by increasing fees, a practice that discourages financial intermediation.

17. Despite continued improvement in economic conditions, the banking system remains vulnerable with pronounced variations among countries. As of end 2005, the average capital adequacy ratio was 14.8 percent. Eight banks, representing 18 percent of the system's assets, were under the 8 percent minimum, and five of these showed negative equity. Non performing loans account for 13.7 percent of the portfolio, and COBAC efforts have led to improved provisioning, with an average provisioning rate of 79 percent. Overall, the ratings by COBAC exhibit an increased number of banks favorably rated, but also a sharp increase in the number of negatively rated banks.

Microfinance

18. The microfinance sector provides uneven access across the CEMAC region. The sector is well developed in Cameroon, Congo, and Chad, moderately developed in the CAR, and incipient in Gabon and Equatorial Guinea. The sector is concentrated around some 20 institutions (federations and networks), more than half of them in Cameroon. These large MFI's seem to have generally sound management and good financial results but they are fragile, especially given their rapid growth. Besides the large institutions, there are several hundred small institutions, very few of which seem profitable. Links between banks and MFI's are emerging, especially in Cameroon where a few banks have helped launch MFI's and are lending to them. However, some MFI's have difficulty opening bank accounts, as some banks view them as competitors or at-risk clients. Other than these links and sporadic refinancing of MFI's, only a few banks are considering expanding their services to them.

BDEAC – The Development Bank

19. The Development Bank of Central African States (BDEAC) was established in December 1975 and started operations in January 1977 with the objective of financing economic integration projects in the region and feasibility studies for regional projects. The Bank has an authorized capital of CFA 81,450 million of which 32.5 percent has been paid in. The Bank faced serious financial difficulties starting in the mid-eighties, principally because of widespread defaults by member countries as oil prices, oil revenues and economic activity declined. Less than prudent lending practices also contributed to the portfolio problems. BDEAC suspended lending activities in 1992 and began a process of consolidation which focused on loan recovery and staff reductions. In 2002, the appointment of a new president, and a growing demand for BDEAC services in the region led to a restructuring process carried out in two phases in 2002-2007. The restructuring plans have sought to strengthen corporate governance, reduce the influence of governments in decision-making bodies, and improve risk control mechanisms. New statutes were adopted in 2002 which allowed for an increased participation of non-member countries in the capital of the Bank.

20. The regional authorities have designated the BDEAC as a primary instrument for financing integration, and BDEAC was designated as the administrator of the Community Development Fund (FODEC) that will receive an annual allocation from tax and customs revenues. BDEAC also received a revolving line of credit from BEAC, and has started mobilizing funds from the market.

21. The objectives of the 2005-07 plan were partially achieved. There has not been a reduction in the participation of member governments despite the changes in the statutes and these still hold more than 75 percent of the shares, discouraging the entry of new private shareholders. The objectives for resource mobilization were substantially met (80 percent of the objective reached), but BDEAC was unable to increase lending as programmed (46.3 percent of objective), to a large extent because the planned modernization of operational procedures including the updating of its management systems moved slowly. While the quality of staff has improved, there is still a mismatch of skills, and BDEAC staff needs to be trained in modern banking techniques.

22. In spite of its regional mandate, at the end of May 2006 only about one third of BDEAC's portfolio was in regional projects. The portfolio is heavily concentrated in Cameroon and Chad with commitments in these countries accounting for 65 percent of total commitments net of cancellations. As of May 2006, no loans had been made to Gabon or Equatorial Guinea. Of total commitments of CFA 19 billion, CFA 6.6 billion or 34 percent of commitments net of cancellations had been disbursed. Portfolio management has improved, although and arrears are low. BDEAC proposes to continue managing its portfolio to ensure that arrears of more than three months remain below 9 percent of portfolio outstanding. Equity has increased representing 70 percent of total assets. Profitability is affected by its low level of lending and which is reflected in high liquidity and low returns on its liquid assets.

23. The corporate governance of BDEAC is expected to be strengthened further by, among other things, the establishment of an independent and qualified Board of Directors. The current business strategy of providing co-financing with well-known lenders and refinancing of national financial institutions (sound banks and MFIs) is prudent during this transitional period. For private lending, BDEAC expects to raise resources from the market to avoid creating distortions and to ensure its long-term viability.

24. BDEAC has prepared a business plan for the next five years which will be supported by the project. The objective of BDEAC's five-year program is to modernize and strengthen the institution so that it can increase its role in promoting economic development and regional integration. Specifically, the program will enable BDEAC to increase financing of sound regional projects and capture of surplus oil revenues for investments in the region. The program will focus on strengthening governance, operations and financial management of BDEAC (to be updated).

Securities Exchanges

25. Two independent and parallel securities exchanges are currently being developed in the CEMAC region, despite potential legal and financial conflicts. Cameroon is promoting the Douala Stock Exchange (DSX), and a regional securities exchange is being established in Libreville following a decision of the Conference of Heads of States. Two stocks are listed in the DSX. The Libreville exchange has started operations. The Financial Sector Assessment recommended that the two exchanges be merged and responsibility for its supervision unified in order for the market to have a chance of being viable. The parallel development of two competing institutions raises a number of legal questions, and the operation of both would not be viable considering the small size of the market. Options for integration (at least partially as in cross listing) with other financial markets, particularly those in western Africa or South Africa should also be considered. The regional supervisory agency has been in operation since 2005 and the regulatory framework is being finalized. For the time being, the support of the proposed project to the securities exchanges will be limited to a study on the feasibility of the financial market, targeting harmonization of the legal and regulatory frameworks and the technical interconnections between the existing exchanges. Additional IDA financing would be subject to agreement on the restructuring of the markets, in accordance with the recommendations of the study.

Regulation and Supervision of Financial Institutions and Financial Integrity

Banks and Microfinance Institutions

26. The prudential framework for the banking system has been strengthened but is not yet in line with requirements. Regulations on the minimum capital adequacy ratio, large exposures, and internal controls were adopted in 2001 and a prudential framework for microfinance was introduced in 2002. However, the modalities for the calculation of the capital adequacy ratio fall short of the Basel Committee recommendations, and its minimum level (8 percent of risk-weighted assets) does not reflect risk levels in the CEMAC Region. The limit to large exposures (45 percent of regulatory capital) is also not consistent with the Basel Committee's

recommended 25 percent, and it can be up to 90 percent for companies that COBAC recognizes as strategically important for the countries. Finally, full provisioning for non-performing loans is only required after three to four years, which is too slow a pace.

27. Compliance with prudential norms is low, although there has been some improvement in recent years. In November 2005, nearly one-fourth of the banks were in violation of the minimum capital adequacy ratio, and nearly three-fourths did not comply with the limits on large exposures. In addition, COBAC's severe understaffing has resulted in delays in drafting implementing regulations for prudential norms that have been recently passed (accounting and prudential consolidation, operational thresholds beyond which strengthened controls are required of auditors). COBAC's understaffing has also resulted in less frequent on-site inspections than desirable, and flaws in off-site supervision. Finally, COBAC's ability to impose sanctions is used too late, as evidenced by the long-lasting violations to critical norms (i.e., negative equity or large exposures amounting to several times a bank's capital).

28. COBAC, established in 1990, has a broad mandate, and is charged with preparing regulations applicable to all institutions which carry out banking activities except for the postal system and the insurance sector. It is also charged with supervising these institutions. COBAC's decision making body is the Banking Commission, chaired by the Governor of BEAC and consisting of representatives of CEMAC member countries; these representatives remain staff of their respective Ministries of Finance. Day-to-day operations of COBAC are the responsibility of an Executive Secretariat which has had its offices in the BEAC headquarters in Yaoundé, Cameroon, but which is expected to move to its own facilities Libreville, Gabon.

29. COBAC's increasing functions are threatened by its lack of resources; it has only four staff members to carry out off-site audits and 11 for on-site audits, while five experienced staff members have recently left the agency. The shortage of staff to carry out its offsite function makes it difficult to analyze financial statements and detect problems early enough for remedial measures to be implemented. Examinations will need to focus increasingly on identifying or preventing prudential problems in financial institutions. COBAC's independence is in fact challenged by the role retained by the national authorities in the issuance or withdrawal of bank licenses and the fact that most of the commissioners in its Board have official positions in the national ministries.

30. COBAC has prepared an action plan to be implemented over the next five years with support under the project. The objective of the COBAC program is to strengthen the institution so that it can perform its function of ensuring the stability of banking and non-banking financial institutions and protecting depositors. COBAC's plan incorporates most of the recommendations of the CEMAC Region Financial Sector Assessment, and seeks to strengthen the institution's independence by reducing further the role of the finance ministries in the licensing process, and ensuring a greater diversification of the COBAC's commissioners, and a substantial increase of COBAC's staff. These changes will enable COBAC to enforce sanctions contemplated in existing regulations. An action plan to update regulations has also been prepared; the proposed reforms will bring basic prudential norms more in line with international standards.

Insurance Sector

31. The regional framework for the supervision of the insurance sector adopted in 1995 represented an improvement over earlier norms, but anecdotal evidence suggests that its effectiveness has deteriorated. In some cases, companies that are no longer viable have been allowed to continue in business, while in other cases the regional regulator approved the licensing of a new company, but national authorities did not grant the license in response to pressure from competitors. The causes for the deterioration of the supervisory framework include inadequate resources provided to the supervisor, political pressures on its staff (most of them are on secondment from their national authorities), a lack of clear delimitation of responsibilities between the regional supervisor and the national insurance authorities, and loopholes in the regulatory framework that excludes key areas such as the supervision of reinsurance and brokerage activities. There is a plan to increase staffing levels and the capacity of the supervisors and to update the regulations, which should contribute to improving of the regulatory institutions. Support for the insurance sector is expected to be provided by the government of France.

Anti-Money Laundering - GABAC

32. The CEMAC regulation adopted in 2003 on a regional legal framework on Anti-Money Laundering and Combating the Financing of Terrorism provides a good legal framework for these activities, and the implementing regulation issued by COBAC for the banking sector is a significant step forward. However, the framework still needs further amendments to be in line with standards, and the legislation remains largely ignored outside of the banking sector. The predominance of cash-based transactions in the region makes it all the more essential to foster the implementation of obligations outside of the financial sector. governments seem ready to place more emphasis on an effective anti-money laundering framework in terms of good governance, the fight against corruption and the trafficking of natural resources, so as to foster actions at the national level.

33. The unclear responsibilities between the regional agencies involved and the national authorities hamper the implementation of the framework. GABAC, with headquarters in the Central African Republic, was created on December 2000 with the core missions of fighting money laundering and criminal products, harmonizing national regulations; and working with African and international institutions dedicated to fighting money laundering. GABAC currently has three staff members and has not yet been assigned office space by the host government, as is the practice. In addition to GABAC, national Financial Intelligence Units (FIUs) are to be established and built up, and their independence guaranteed. These units would need to ensure the secure and confidential treatment of the information made available to them.

Financial Infrastructure

Legal and Judicial Framework

34. The credit environment is governed by uniform OHADA legislation which is an improvement over earlier legislation, but which requires changes. The legislation is perceived as complicated and not always implemented. Weak governance, and limited training and specialization in judicial systems remain a major impediment to creditor rights' efficiency. Court proceedings are lengthy and unpredictable, and suffer from perceptions of malpractice and corruption. These shortcomings are problematic in a context where legal systems rely heavily on the formal judicial system to resolve disputes. The OHADA legislation is expected to be revised to take into account problems encountered in its application; support for this activity will be provided by FIAS.

Accounting

35. OHADA has established an accounting framework for the region. The framework distinguishes levels of requirements according to company size, but the thresholds have not been revised, thus placing a heavy burden on SMEs. For large companies, the standards do not conform to international norms and will need to be revised. In addition to the problems with accounting standards, there are no standards for auditing which raises serious concerns regarding the quality of financial statement audits. It is expected that the International Auditing Standards will be adopted, which would not only address weaknesses in the regulatory framework, but also contribute to improving the image of the accounting profession by the business community.

Payment systems

36. A regional payment system reform project under the aegis of BEAC and financed by the World Bank was launched in 2003 to make the national and regional payment systems more effective and secure. Implementation of the program took longer than originally anticipated due to a lack of experience, weak coordination, and some divergences with the banks regarding the interbank card system component of the project. A payment system Directorate responsible for supervision of the new system has now been established in BEAC, and will be supplemented by units in each country. Under the proposed project, activities to expand the system will be financed.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

Bank Financed

	Project	**Latest Supervision (ISR) Ratings (Bank-Financed projects only)**	
Bank-financed: Sector		Implementation Progress (IP)	Development Objective (DO)
AFTTR - Transport	CEMAC – Transport – Transit Facilitation Project (P079736)	MU	MS
AFTFP - Finance	BEAC - Regional Payment System Project - (P072881) - Credit 3704	S	S

Other Agencies

The project complements two grants of US$1 million each in support of BDEAC's reform program recently approved by the AFD (France) and the shortly to be approved by the African Development Bank.

Annex 3: Results Framework and Monitoring

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
The project aims to strengthen Central African regional institutions so that they can fulfill their mandates to encourage an expanded, better governed regional market, and a more transparent, better regulated and more competitive financial system. This will facilitate the re-utilization of oil revenues for investment in Central Africa. The project supports programs approved by the member governments designed to improve the efficiency of regional institutions	- Increase in percentage of foreign reserves managed regionally by BEAC (from 35% at the end of 2007 to 50% at the end of 2009). - Banks accounting for 80% of sector assets complying with agreed prudential norms by end of project. -Growth of BDEAC financing of regional projects (from CFA 8.2 billion in 2007 to CFA 15 billion per year in 2012)	Assess progress towards achieving PDO and revise component strategies as needed. Adjust indicators if needed on basis of at mid-term review **YR5** evaluate project success; assess relative effectiveness of various components to inform future regional policies and programs.
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Use of Intermediate Outcome Monitoring**
Component 1-BEAC <u>Result</u>: Strengthen BEAC to improve regional monetary policy; develop public securities markets and facilitate payments in the region -Improving Monetary Policy - Developing public securities market -Improving payments	- Monetary programming conducted at regional level by Y4. - Central Bank/Government paper issued by Y3 (none issued now). - Cross-border electronic payments transactions in wholesale and retail systems (SYGMA and SYSTAC) cumulative increase of 33% by Y3 and 61% by Y5.	Assess progress towards implementation and effectiveness of project outcome measurements. Adjust indicators as needed on basis of experience at mid-term review. **YR 5** evaluate project outcome
Component 2- Encouraging Regional Investment Financing <u>Results:</u> (a) Strengthen BDEAC so that it can increase financing of regional projects and intermediate surplus oil revenues; and (b) increase readiness of regional	-Growth of financing by BDEAC for investment in regional projects, primarily infrastructure investments (from CFA 8.2 billion in 2007 to CFA 15 billion per year	Assess BDEAC capacities to expand lending and recycle regional funds, and adjust technical support for BDEAC as needed

projects for financing. For (a) sub-results are: (i) Improving governance of BDEAC. (ii) Strengthening project evaluation and portfolio management (enhance development impact and profitability). iii) Improving financial management (investment, resource mobilization policies) and introduce management information system (enhance efficiency and profitability)	in 2012). - Revised and applied policies, procedures and internal controls by Y3 - All projects evaluated according to new policies by Y3. - Improved portfolio performance, as measured by increased ratio of annual disbursements/commitments in the preceding year from 43% in 2007 to 70% by Y3 - Maintaining level of NPL (arrears of more than 3 month as % of loans outstanding) not to exceed 9% -New MIS including accounting system substantially in place by mid-term and generating financial reports in line with international standards by Y5	
Sub-results (b): Strengthen COBAC (enhance supervision: strengthen regulation; improve management tools) so that it can contribute to stability of banking and non-banking financial institutions and protect depositors. -Improving regulation and supervision of banks -Improving regulation and supervision of microfinance institutions	- Progress towards implementing plan towards compliance with Basle II Core Principles (capital adequacy; provisioning) with norms adjusted as required to meet needs by end of project. - Updated accounting plan for banks in place and used by banks by Y3 - Plan for application of microfinance regulatory framework and supervision system in place and applied by mid-term review.	Assess progress in compliance and adapt program and technical support as needed

Arrangements for results monitoring

		Target Values					Data Collection and Reporting		
Project Outcome Indicators (set base year)	**Baseline (2007)**	**YR1 2009**	**YR2 2010**	**YR3 *Mid-term (2011)***	**YR4 2012**	**YR5 2013**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
-Growth of investment in regional projects, primarily infrastructure investments -Increase in percentage of foreign reserves managed regionally by BEAC. -Percentage of banks complying with prudential norms)	 35%	 50% and thereafter					Quarterly for all outcome indicators	Internal and published reports from Implementing Institutions	
Intermediate Outcome Indicators									
Component 1-BEAC --*Strengthen Monetary Policy* - -Regional programming effective by year 4 --Government/Central Bank bonds issued by Y3; -- *Strengthen Reserve Management*	Monetary programming done at national level Govmt bonds issued by a few countries and not systematically sold regionally			Govmt/ Central Bank bonds issued	Monetary programming Possible at regional level		Quarterly for all indicators	Internal and published reports from Implementing Institutions	Department in charge at BEAC which transmits to UGRIF Studies Department Credit, Capital Markets Bank Control Department

- Methodology for diversification of instruments in place by Y3									
--Expand Payments System									
- Increase in cross-border electronic payments transactions in wholesale and retail in SYGMA	None. Plan in place	SYGMA/ SYSCOA plan implemented through project period		33%		61%			Credit, Capital Markets Bank Control Department
-Number of banks with operations in more than one country increase.	5								Credit, Capital Markets Bank Control Department
- Reformed centrale des risques and centrale des bilans by end of project	Plans being updated								
--Strengthen Human Resources									
-Staff training program prepared and implementation started	Being prepared								Training Department
-Improve Information Systems									
-Master plan prepared and multi-year plan adopted by Y4.	No plan in place. Priority investments being financed								Information Department

Component 2- Encouraging Regional Investment Financing							Quarterly for all indicators	Internal and published reports from implementing institutions	BDEAC to transmit information to UGRIF
- Growth of financing by BDEAC for investment in regional projects, primarily infrastructure investments (from CFA 8.2 billion to in 2007 to CFA 15 billion in 2012). Figures in CFA billion	8.2	8.8	11.2	12.5	15		BDEAC (DEF)		
--*Reforming BDEAC project evaluation and portfolio management systems8,* - Revised and applied policies, procedures and internal controls by Y3 - All projects evaluated according to new policies by Y3.	-Consultants being recruited. Expected to begin work early 2009. -New procedures expected to be introduced in 2009								BDEAC/ DEF
- Improved portfolio performance, as measured by increased ratio of annual disbursements/ commitments (%) in the preceding year by year 3	43	46	60	64	69				
- Maintaining low level of NPL. Arrears of more than 3 months not to exceed 9% of outstanding portfolio	Limited	Arrears of							

--Reforming BDEAC Financial Management - - New MIS including accounting system substantially in place by mid-term and generating financial reports in line with international standards by YR3	lending; arrears of more than 3 months less than 2% of outstanding portfolio \ BDEAC does not have an MIS system	more than 3 months not higher than 9% of outstanding portfolio through project period							
Component 3- Improving Regional economic policy coordination, financial sector asupervision and financial integrity **(a) CEMAC**: -Convergence reports prepared by member countries. -CEMAC Secretariat Reports on compliance with agreed fiscal and tariff regularly. -Regional information available. **(b) COBAC:** *Strengthening Regulation*	-Program to strengthen monitoring to be defined Reports not prepared -Data base non-existent. Program to put in place being defined. Partial	-Program put in place through project period Program put in place through project period Implement					Quarterly for all project institutions	Internal and published reports from Implementing Institutions	CEMAC to transmit information to UGRIF
						-Reports Produced			COBAC To transmit information to UGRIF

&Supervision of Banks Strengthen regulations to ensure consistency with Basle Core Principles/Basle 2 adjusted as required (capital adequacy; provisioning risk coverage) -Introduce new accounting standards for banks. - Improved monitoring and enforcement through improved on-site inspections (at least every 12 months for large banks, and 18 months for other banks -Improved monitoring and enforcement of rules through better off-site surveillance and on-site inspections based on a calendar. COBAC identifies/penalizes banks not in compliance; -Bank compliance with prudential regulations -Banks publish accounts using standard	consistency:: provisioning: full provisioning after 3-4 years, slower than norm; Plan being developed Calendar drawn up with targets (inspections & surveillance) Partial compliance Regulatory framework ready. Enforcement to begin in YR 3 Program Spelled out by YR 1 and application in subsequent years	plan through project period Implement plan through project period Program defined in year 1 and implemented after year 3							

accounting plan *Strengthening Regulation and Supervision of Microfinance Institutions* -Supervision of Microfinance institutions -Microfinance institutions in compliance with regulations **(d) GABAC:**	Partial compliance; regulatory framework and supervision plan in place. Information campaign designed and begun to be implemented by YR1								GABAC to transmit information to UGRIF.

1. The Monitoring and Evaluation (M&E) system is based on the agreed Results Framework and monitoring arrangements (see Annex 3). UGRIF will have responsibility for coordinating M&E activities while data collection and monitoring will be the responsibility of each implementing institution. The relevant departments of each implementing institution will be responsible for data collection, management and reporting of their respective component and subcomponents.

2. UGRIF will be charged with consolidating information and data received from each of the agencies. The Project Officer in each executing agency will be responsible for consolidating information in his/her agency and sending it to UGRIF. Reporting will be done on a quarterly basis. The quarterly report (table) will include (i) the activity indicator; (ii) the status of the indicator (say categories 1, 2, 3 with three being fully achieved). If an indicator is not achieved (category 1), the performance is "off-track" and there is a risk that the agreed target will not be attained. If this occurs, the agency Project Officer and the department concerned will prepare a plan with corrective actions to ensure that the agreed result is attained. BEAC will prepare a quarterly action plan which consolidates each agency plan and noting the persons responsible for taking the required actions.

3. As soon as the Financing Agreement is effective, all agency Project Officers will be trained in LPPMS in order to integrate the project performance indicators into the M&E system. This will facilitate access to project execution data and will enable potential problems can be identified expeditiously.

4. The project performance reports will be sent to the BEAC Project Coordination Unit on a quarterly basis. It will consolidate the data in a concise M&E report which will be submitted to the Project Monitoring Committee for review and transmitted to the Project Steering Committee for information. The M&E reports will assess achievements against the programmed indicators.

5. In addition to the M&E reports, each agency will be responsible for updating the Project Implementation Plan (PIM), including the procurement every six months.

Annex 4: Detailed Project Description

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

1. The proposed project aims to strengthen Central African regional institutions so that they can fulfill their mandates to encourage an expanded, better governed regional market, and a more transparent, better regulated and more competitive financial system. This will facilitate the re-utilization of oil revenues for investment in Central Africa. The project supports programs approved by the member governments designed to improve the efficiency of regional institutions. The Chiefs of State of the CEMAC Region approved substantial changes for BEAC and the CEMAC Secretariat in April 2007, and approved reforms for BDEAC and COBAC earlier. The proposed project will provide support for all six Central African Regional Institutions. However, the focus of the project will be on the BEAC, COBAC and BDEAC because of their importance in addressing urgent challenges to the regional economy associated with the rise in oil prices, and the CEMAC Secretariat, given its mandate in spearheading overall integration. The project also includes a preinvestment fund to prepare bankable regional projects in infrastructure. The project components are described below.

COMPONENT 1 – Strengthening the Central Bank -BEAC -*Banque des Etats de l'Afrique Centrale* (IDA credit financing of US$14.5 million)

2. The project will support the implementation of the Strategic Plan of BEAC approved by its Board in October 2007. The Plan's objectives cover four strategic themes: improving the effectiveness of monetary policy; modernizing BEAC's operations; improving BEAC's governance and its policies and procedures; and enhancing BEAC's role in the region. The Strategic Plan seeks to increase the effectiveness of BEAC's statutory missions as the regional central bank -- the definition and implementation of monetary policy; managing foreign exchange reserves; and managing the regional payments system. The Plan also seeks to strengthen support functions such as BEAC's training program, and telecommunications requirements. The IDA Credit will finance advisory services, materials, supplies, equipment, software and hardware. The financing will assist BEAC help carry out priority activities among those discussed below.

Monetary Policy

3. BEAC's objective is to increase the effectiveness of monetary policy by adapting it to address the system's current excess liquidity; improving the research function and statistical base and by putting in place new policy instruments (government/Central Bank paper) which will also help develop regional capital markets. To this end, the project would support, among others:

Policy formulation:

- Analytical work to refine monetary programming; and introduce monetary programming at the regional level (Studies Directorate); updating of indicators to track developments in the economy.

- Designing and putting in place information system to manage monetary statistics (Studies Directorate).

- (i) strengthening the theoretical underpinning of monetary policy by improving the information base, including establishing a data base for economic and financial data base for the CEMAC region and a documentation center; and (ii) carrying out in depth studies, setting up a program of research seminars and research notes; and establishing guidelines for the harmonization of statistical methods in the region (Research Directorates).

  Policy implementation:

- (i) Introduce treasury/central bank paper; (ii) revise the system of open market operations (iii) complete the work launched on a "*Centrale des Risques*" and a "*Centrale des Bilans*" (iv) establish mechanisms for the implementation of Monetary Policy Committee recommendations; (v) carry out studies including use of the inter-bank market, the development of non-bank financial institutions (e.g. leasing); system to respond to systemic crisis and a forum on financial stability; credit and banking markets in the region; (Credit Directorate).

Financial Operations. The objective is to optimize the return on investments, consolidate the management of monetary reserves and gold stocks, and improve the operations of the trading room. Activities include

- (i) Analytical work to determine an appropriate asset allocation of reserves; expand the range of investment instruments utilized; set fees for market operations with the member governments; encourage the repatriation of foreign exchange proceeds; (ii) maintain emergency plan for continuity of operations; and (iii) establish a specialized documentation center; (iv) provide specialized training to relevant staff (Foreign Exchange Reserves Directorate).

Payments Systems. The objective is to increase the use of payments systems and to this end, will carry out the functions spelled out below.

- (i) definition and implementation of measures to simplify and standardize conditions of access to the system (ii) define approaches to encourage the use of the systems by microfinance institutions; (iii) design measures to reduce the operating transaction costs of the system.
- Discourage paper-based transactions by defining and implementing measures that encourage automatic payments, credit, debit and pre-paid cards and other electronic means of payment.
- Develop and put in place a system to track "incidents of payments"
- Develop and put in place a system that ensures payment systems performance and continuity; create an extranet portal. (Payment Systems Directorate)

External Relations. The objective is to enhance the relations with member governments and with regional/international financial institutions. Key activities envisaged are below:

- (i) Design and put in place a system to manage balance of payments data for CEMAC (ii) updating of foreign exchange regulations and dissemination of monetary and exchange regulations; (iii) identification of areas requiring technical assistance from international institutions; (iv) seminars and papers disseminating policy in the region; (v) putting in place a plan for increased coordination with the Central Banks of the Congo (DRC) and Sao Tome and Principe and with other regional programs and institutions.

Information Systems and Technology. The objective is to improve in communications and the planning and management of its information systems; activities planned include:

- Upgrade the communications network of BEAC, including the satellite (VSAT) and high speed (fiber optic) lines between its centers in the six CEMAC countries.
- Implement an Emergency Business Operations Continuity Plan
- Definition of an information technology master plan which among others defines procedures and a medium term investment plan.

Human Resources/Training. The objective is to develop a personnel management and training system which increases staff productivity and staff development. Activities envisaged include

- Definition of a human resource master plan including requirements, career streams and salary structure; recruitment policy that responds to institutional needs (Human Resource Directorate).
- Preparing a multiyear training program including initial and follow-up training for all staff and specialized technical training and related activities, such as developing a database on staff training for the personnel.
- Preparatory work for the establishment of a regional training center on banking/monetary issues (Training Directorate).

COMPONENT 2 – Encouraging Regional Investment Financing

Subcomponent A: Strengthening BDEAC (IDA credit financing of US$9.0 million)

4. The objective of BDEAC's five-year strategic plan supported by the project is to modernize and strengthen the institution so that it better performs its functions of promoting economic development and regional integration. Specifically, the program will enable BDEAC to increase financing of sound regional projects and recycling of surplus oil revenues for investments in the region, particularly in infrastructure (transport, electricity, water supply, telecoms, etc.). The program will focus on strengthening governance, operations, particularly project evaluation and portfolio management, financial management and support functions of BDEAC as described below. The Credit will finance advisory services, materials, supplies, equipment, software and hardware to carry out key activities among those discussed below.

Governance

5 The BDEAC program seeks to improve the governance by strengthening its decision-making processes. To this end, the Bank project would support the following activities:

- Revise the composition and powers of the General Assembly.
- Introduce new guidelines for the operations of the Board of Directors so that it can make informed policy and investment decisions; this will include the creation of working groups which would report to the full Board on specific issues.
- Definition of policies governing money laundering
- Definition of policies governing social and environmental impact of projects.

Project evaluation and portfolio management

6. As part of its reform program, BDEAC plans to update operational policies and procedures. Specifically, the program calls for:

- Establishment of clear procedures for loan processing. This includes definition of the roles of the departments involved. The procedures will separate the commercial and the analytical aspects of loan processing;
- Development and adoption of a standardized approach to the economic and financial analysis of projects;
- Development and adoption of detailed portfolio management policies and procedures which focus on risk;
- Development of a fixed calendar for the meetings of the committees charged with operational decisions;
- Preparation of an operations manual;
- Strengthening the capacity of the operations and legal staff.

Financial management

7. The project will support strengthening of policies and operations to improve financial management. Specifically, the program calls for:

- Definition of policies on asset-liability management; treasury operations;
- Definition of a methodology for assessing risk of banks (BDEAC is increasing its second-tier role);
- Definition of regulations to govern investments;
- Definition of a strategy for resource mobilization;
- Carrying out a feasibility study on a concessional lending facility;
- Definition of guidelines for auditors to ensure that audits are in line with international practices.

Management Tools and Human Resource Development

8. The BDEAC proposes to improve its information systems based on an information systems master plan. BDEAC envisages:

Information Technology:

- Implementation of the information systems master plan
- Revision of its accounting plan;
- Development of a regional economic data base and an archival system for documentation;
- Development of a web site

Human Resource Management and Administration:

- Definition of a human resource management strategy including career streams;
- Implementation of a short term training program to upgrade existing staff;
- Definition and startup of a young professionals program;
- Development of a code of ethics; and
- Definition and implementation of a training curriculum.
- Design and put in place performance monitoring systems

Improve Internal Controls

- Implementation of training program in departments dealing with internal controls.

Subcomponent B: Feasibility and Pre-Investment Study Fund (IDA credit financing of US$6.0 million)

9. Investment in regional projects, particularly infrastructure, is central to integration and growth in the CEMAC region. Regional investments have been slow to materialize, in part because of their size, but also because of the risk factors associated with the region. Despite substantial reforms over the past decade, including the liberalization of infrastructure sectors, privatization of public enterprises and development of cross-border initiatives in transport, energy, telecom and water sectors, the region is still perceived as a "high risk—high transactions cost" by the private sector. Although foreign direct investment did increase over the past decade, the negative perception persists in some countries and from the region's history of mixed policy performance subject to setbacks or delayed implementation. Experience with regional projects elsewhere in Africa has shown that because of risks, the feasibility of investments has to be thoroughly studied and demonstrated for private investors to participate.

10. The project would support a fund that will finance feasibility and pre-investment studies. The fund would be managed by BDEAC who will appoint dedicated staff to this activity. The studies would be carried out at the request of member governments, a regional organization, a

local government in the region or an investor operating in the region operating under a public-private partnership. If projects translate into BDEAC financing, the cost of the preinvestment study would be refinanced under the BDEAC loan. If this is not the case, the cost of the study would be absorbed by BDEAC. The feasibility work to be carried out under the project is a necessary prior step for the adequate implementation of a regional investment financing program. The maximum financing for any study will be the equivalent of US$ 700,000. BDEAC will contribute a maximum of 70 percent of the cost of the study. The mode of operation of the fund will be spelled out in Guidelines and in the Project Operational Manual.

COMPONENT 3 – Improving Regional Economic Policy Coordination, Financial Sector Supervision and Financial Integrity

Sub-component A: CEMAC - *Commission de la communauté Economique et Monétaire de l'Afrique Centrale* (IDA credit financing of US$3.0 million).

11. The project aims to strengthen the CEMAC Secretariat so that it is able to fulfill its mandate. Specifically the project will support activities that aim to facilitate policy convergence; and intra-regional trade; improve information to facilitate policy making, investment and infrastructure development. The project will finance advisory services, materials, supplies, training and hardware to:

- Harmonization of procedures for the elaboration of economic statistics and of fiscal and customs reform with a view to reducing distortions
- Implementation of an analytical tool to assess practices in transport corridors
- Establishment of a data base for CEMAC ensuring cooperation with BEAC and BDEAC which plan the development of similar databases
- Implementation of staff training to upgrade CEMAC staff.

Subcomponent B: COBAC - *Commission Bancaire de l'Afrique Centrale* (IDA grant financing of US$7.0 million)

12. COBAC aims to strengthen its operations so that it can perform its function of ensuring the stability of banking and non-banking financial institutions and protecting depositors. To this end, this component will support (a) improvements in prudential regulations and banking supervision practices (b) improvements in the regulation and supervision of microfinance and promotion of other non-bank financial institutions; (c) providing the information technology and other management tools for COBAC operations; and (d) promoting banking sector integration and development. The project will provide advisory services, training to carry out key activities. It will also finance as required materials, supplies, computer hardware and software.

Regulation and supervision of the banking sector

13. The program envisages improvements in the regulatory framework and supervision function and the protection of depositors. The program also aims to strengthen the corporate governance of banks. This will entail:

- Preparation and implementation of a plan for the adoption of prudential norms spelled out in BASLE II.
- Updating of market conduct rules for the banking sector and rules for monitoring and enforcement by supervision staff.
- Updating guidelines for on site and off site supervision, to change the supervision system approach from one based on compliance to one based on risk management.
- Revision of accounting standards for banks for compliance with international norms (International Accounting Standards-IAS).
- Capacity building including (i) training to strengthen the skills of bank supervisors; (ii) internships in banking commissions to familiarize COBAC supervisors with supervisory processes in more advanced bank supervisory agencies; (iii) participation of key senior staff in high-level international banking supervision conferences; (iv) training for regional stakeholders on key regulations (e.g. on the agreement unique).
- Analysis of the feasibility of a possible deposit guarantee fund for the region.
- Upgrade and expand the on-site and off-site supervision system.

Regulation and supervision of microfinance and other non-bank financial institutions

14. The project will provide support to increasing the knowledge base of the microfinance sector; development of the regulatory and supervisory framework for MFI's. In addition, the project will support increased knowledge of non-bank financial institutions.

- Define and put in place an action plan for application of microfinance regulations and the supervision of microfinance institutions
- Build a data base on microfinance institutions and establish a rating system ;
- Design and implement a credit bureau (*centrale de risques)* for MFI's;
- Publish and distribute the regulations and accounting plan for MFI'S;
- Carry out a study on a clearing and settlement system of MFI transactions (*chambre de compensation*) at the national and/or regional levels.
- Carry out studies and seminars on non-bank financial institutions, including on leasing, factoring, exchange bureaus and issues related to the transfer of cash services within CEMAC.
- Capacity building including (i) training supervisors in on site and off site supervision (ii) training of MFI's on regulations.
- Design and put in place supervision system for microfinance institutions.

Management Infrastructure and Studies

15. The project will provide the information technology, management tools and communication/ dissemination instruments of regulatory information in the region. To this end the project will finance advisory services, training, materials and supplies, and software and hardware for:

- Preparation and implementation of an information systems master plan;

- Development of a banking sector database;
- Development of archival/records systems;
- Publication of regional regulations and regional seminars to disseminate regulatory framework and compliance best practices.
- Design and put in place performance monitoring systems
- Studies to promote banking sector development and integration

Subcomponent C: COSUMAF - *Commission de Surveillance du Marche Financier de l'Afrique Centrale* (IDA grant financing of US$2.0 million)

16. COSUMAF, the regulatory agency charged with supervision of the regional financial market, has begun preparation of regulations to govern the exchanges and has developed an ambitious Business Plan covering the period 2007-2012. However, given the lack of proven viability of the two parallel exchanges, it is not evident if the project should support the development of COSUMAF under the current institutional framework. Therefore, it is proposed that for the time being, IDA financing be limited to a study on the feasibility of the financial market, targeting harmonization of the legal and regulatory frameworks and the technical interconnections between the existing exchanges. Additional IDA financing would be subject to agreement on the restructuring of the markets, in accordance with the recommendations of the study.

17. The credit includes a US$100,000 allocation to carry out the abovementioned study. In addition, US$1.9 million have been set aside under the project to cover advisory services and training needs to assist in the restructuring and development of the regulatory/supervisory framework of the market after there is formal agreement on it.

Subcomponent D: GABAC - *Groupe d'action Contre le Blanchiment d'Argent en Afrique Centrale* (IDA grant financing of US$2.0 million)

18. The project will support the CEMAC governments in their objective of combating money laundering and the financing of terrorism in the region. The Regional Act No. 9/00/CEMAC-086/CCE 02 of December 2000 established GABAC, thereby making it a dedicated body of the Community. In addition, the CEMAC regulation adopted in 2003 on a regional legal framework on Anti-Money Laundering and Combating the Financing of Terrorism provides a good legal framework for these activities. COBAC has issued implementing regulations to this legislation for the banking sector which represents a significant step forward. However, there is a need to improve the legal/regulatory framework, and, more importantly, there is a need to make operational the legislation. To this end, GABAC also intends to complete the process of being recognized as the FATF-style regional body for the CEMAC region, by accepting the core 40+9 FATF principles that the regional institutions adhere to. The project will provide consulting services training and equipment and supplies to finance the following activities:

- A regional public information campaign on money laundering and financing of terrorism to make stakeholders, including senior government officials, aware of the policy issues, existing legislation and national requirements and the creation of AML/CFT authorities

- Updating as needed the national legislation and regulations applicable to money laundering and combat of financing of terrorism.

- Strengthening the regulatory framework to be used by GABAC, by among others establishing typologies of Anti Money Laundering/Combating the Financing of Terrorism (AM/CFT) in each member country.
- Carrying out staff training, development of information systems, and necessary communications facilities with national AML/CFT authorities.

COMPONENT 4 - Support for Project Implementation (IDA credit financing of US$3 million)

19. The institutional and implementation arrangements seek to ensure that the operational functions of each participating institution are strengthened. Consequently, participating institutions will be responsible for the technical aspects of implementation of their respective components. BEAC will have overall responsibility for project coordination, as well as the overall financial and administrative aspects of the project, including disbursements and procurement for all institutions. BEAC will also be responsible for the technical aspects of project activities relating to BEAC. Project monitoring will be done at the institutional level and consolidated by BEAC.

20. The regional nature of the project requires a strong coordination team, both to deal with the procurement process and financial management of the project as well as to ensure that outcomes and outputs are monitored consistently and that the analysis of results is technically solid. The project coordination team will be financed under the project. The team will include a Project Coordinator, an Administrative Officer/Accountant, and a Procurement Specialist, and a monitoring and evaluation specialist. The credit will also finance operating expenses of the unit. Whenever necessary, technical assistance will be provided to the participating institutions to assist in overseeing the technical aspects of their components and particularly on monitoring and evaluation of results. Short term assistance will also be provided to the Project Coordination Team at BEAC on specific areas of concern.

Annex 5: Project Costs

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

Project Cost By Component and/or Activity	Local US $million	Foreign US $million	Total US $million
1. Strengthening the Central Bank (BEAC)	8.1	30.5	**38.6**
2. Encouraging Regional Investment Financing			**20.4**
(a) BDEAC	3.3	7.1	10.4
(b) Pre-investment Fund	3.0	7.0	10.0
3. Improving Regional Coordination, Supervision and Financial Integrity			**14.4**
(a) CEMAC	1.0	2.0	3.0
(b) COBAC	3.2	4.2	7.4
(c) COSUMAF	1.0	1.0	2.0
(d) GABAC	1.0	1.0	2.0
4. Support for Project Implementation	2.1	1.8	**3.9**
Total Baseline Cost			
Contingencies			4.3
Total Project Costs			**81.6**
Total Financing Required			**52.0**

Annex 6: Implementation Arrangements

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

1. The project will be implemented over five years. The overriding principle guiding the institutional and implementation arrangements is to ensure that operational functions of each participating institution are strengthened. To this end, BEAC will have overall responsibility for project coordination and for the technical aspects of project activities relating to BEAC while project implementing institutions will be responsible for the technical aspects of their respective components. BEAC will also be responsible for the overall financial and administrative aspects of the project, including disbursements and procurement for all institutions. The procurement and disbursement functions may be delegated to some institutions such as BDEAC which will need to develop competencies in these areas in order to implement their institutional mandate. Project arrangements will be reviewed and adjusted as necessary during project implementation. A mid-term review of the project will be carried out 24 months after Credit effectiveness, and annual reviews would be conducted in the first quarter of the year to coincide with the first BEAC Board meeting.

2. A Steering Committee (*Comité de Pilotage*), chaired by the Governor or Vice-Governor of BEAC and consisting of the heads of all implementing institutions will provide general policy guidance. A Project Monitoring Committee (*Comité de Suivi*), chaired by the Director General of Studies Finance and International Relations of BEAC, and consisting of representatives of all implementing institutions will follow up on project activities. The Project Monitoring Committee will, among others, (i) approve annual work plans and procurement plans; (ii) review progress in project execution through, among others, project indicators and the conclusions of financial and operational audits; (iii) maintain relations with donors which are participating in the project and (iv) discuss and present proposals to the Steering Committee (through the Vice-Governor) on matters which affect the program. An inter-agency committee met regularly during preparation of the project. The Monitoring Committee and the Steering Committee will be formally established prior to Credit effectiveness.

3. BEAC has established a Financial Institutions Reform Management Unit (*Unité de Gestion de la Réforme des Institutions Financières* de la CEMAC –UGRIF) which is charged with day to day coordination and administrative functions of project preparation and execution. UGRIF is attached to the Governor's office and is under the responsibility of the Director of External Financial Relations of BEAC. Staff will include a financial management specialist, an accountant, a procurement specialist a monitoring and evaluation specialist and an informatics specialist. The Deputy Director of the External Financial Relations Directorate has coordinated project activities during project preparation and is expected to be appointed Project Coordinator prior to credit effectiveness. The process of selection of the financial management specialist and of the procurement specialists is underway. The process of selection of the monitoring and evaluation specialist and the informatics specialist is being initiated. The accountant will be appointed from within BEAC. BEAC has implemented other Bank projects. UGRIF staff will receive specialized training in such areas as procurement and disbursements as required.

4. The components will be implemented by the departments in each institution which have the functional responsibility for the activity. One staff in each implementing institution,

(normally the representative of the institution in the Project Monitoring Committee) will be responsible for liaising with BEAC.

5. Some institutions, such as BDEAC, have had experience in successfully implementing investment programs, while others, such as GABAC are relatively young and have had limited experience. The project includes selected implementation support for agencies which require it. A draft of the Project Operations Manual, which spells out implementation arrangements, is available. The final Project Operations Manual will be available prior to Credit effectiveness.

6. Relations between BEAC and each Implementing Institution are spelled out in a Subsidiary Agreement. The Subsidiary Agreement with BDEAC will be signed prior to Credit Effectiveness. The Subsidiary Agreement with each of the other Implementing Institutions will be signed before disbursements are made for the institution. The terms of the agreement, include, the commitment to implement the technical aspects of the institutions' component; arrangements for the transmittal of information on the progress of the component it is charged with and information on other assistance that the Implementing Institution is receiving.

Annex 7: Financial Management and Disbursement Arrangements

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

Summary of the Financial Management Assessments

1. A World Bank financial management team visited the BEAC HQ in Yaoundé during June and September 2008 to conduct the FM Assessment of BEAC which is the main implementing of this project. The objective of the Financial Management (FM) Assessments is to determine whether BEAC has acceptable financial management arrangements as required by the Bank's policies and procedures to implement the project. The assessments were conducted based on the Financial Management Practices Manual issued by the Financial Management Board on November 3, 2005. A summary of the key points of the assessments specific to BEAC and project FM arrangements are set out below.

2. The assessments concluded that the financial management arrangements in place at BEAC meet the Bank's minimum requirements under OP/BP 10.02, and are adequate to provide, with reasonable assurance, accurate and timely information on the status of the Project as required by IDA.

3. The overall project risk is moderate from FM perspective given the existence of sound administrative and financial systems within BEAC its proven track record in implementing Bank-financed projects. Furthermore BEAC is enjoying an autonomous status as international organization with its own financial regulations thus it's not directly affected by the governance and public financial management environment of its host country – Cameroon and other member countries.

4. The following FM arrangements will be to be put in place for a smooth implementation of the project:

- The annual work plans and budgets will be developed by the Project Unit set up within BEAC in collaboration with the respective national stakeholders then submitted to the approval of the project Steering Committee and IDA.
- While BEAC institutional framework, administrative and financial regulations will apply to the project management, simplified Annex of FM and Procurement procedures specific to the project will be developed and integrated into the Project Implementation Manual.
- Un-audited Interim Financial Reports (IFRs) will be produced quarterly by the project Unit, together with the audited Annual Financial Statements (AFS) required under the Financing Agreement(s).
- The project Unit (CRIS) will set up an accounting unit headed by a finances officer who will be supported by an accounting assistant as deem appropriate.

- BEAC internal audit department, so-called *"Cellule de controle interne"*, will include the project activities in its work program for reviews. The project will be audited by the external auditor of BEAC that is acceptable to IDA. The audit reports will be submitted to IDA within 6 months after the end of each fiscal year, say by June 30. BEAC audit committee will ensure the oversight of the audit performance and follow up the recommendations.

1. Detailed FM risks identified and mitigating measures agreed upon

Type of Risk	Preliminary/ Residual Risk Rating	Brief Explanation	Risk mitigating measures incorporated into project design	Condition of Effectiveness/ Board approval (Y/N)?
INHERENT RISKS				
Entity Level *(BEAC may not have adequate capacity to run the project)*	M/L	BEAC has sound institutional structures capable of supporting the Project. A project Unit, so-called -- CRIS is already set up within BEAC for the preparation of the project but will need to be strengthened.	CRIS Team will be reinforced with adequate additional staff.	NO
Project Level *(Complexity)*	M/L	Project design is rather complex on account of its regional scope and involvement of multiple countries	Fiduciary functions will be centralized by BEAC HQ only. Decentralization of the fiduciary roles will be envisaged in the 2nd phase after a conclusive assessment of the other implementing entities.	No
CONTROL RISKS				
Budgeting *(Disciple in Budget management)*	M/L	BEAC has financial regulations including the budget preparation and execution procedures. Yet the specifics related to the project budgeting are to be put in place.	Annual work program and Budget will be agreed and monitored through the integrated financial software; Regular reporting including variance analysis will be submitted along with the IFRs.	No

Type of Risk	Preliminary/ Residual Risk Rating	Brief Explanation	Risk mitigating measures incorporated into project design	Condition of Effectiveness/ Board approval (Y/N)?
Accounting *(Reliability and delay in bookkeeping)*	M/L	BEAC is implementing a new integrated financial system – Oracle-E-Business Suite (Oracle EBS). Though the accounting module is effective for the whole BEAC, project transactions are yet to be recorded on separate ledgers for ease reference and reduce the risks of delay in bookkeeping. an	CRIS will set up an Accounting Unit connected to BEAC Oracle EBS network so as to record the project activities promptly and separately. As integrated software, the accounting module will be linked to other modules to capture budgeted activities. CRIS will assign an accounting assistant and recruit a senior finance officer to handle the FM functions.	Yes
Internal Controls *(Impact of BEAC governance and internal controls environment)*	M/L	This takes into BEAC fiduciary and governance environment which also impacts on the project implementation.	BEAC institutional regulations, procedures and specialized controls services will apply to the project. Besides a project implementation manual will be adopted including simplified FM procedures specific to IDA requirements.	No
Funds Flow *(Project funds may be diverted into BEAC operations or misused)*	M/L	Multiple IAs located in different countries with variable capacity.	For the sake of simplification, project funds will be centralized and managed by BEAC only. One DA will be opened and managed by BEAC/CRIS in accordance with adequate procedures.	No

Type of Risk	Preliminary/ Residual Risk Rating	Brief Explanation	Risk mitigating measures incorporated into project design	Condition of Effectiveness/ Board approval (Y/N)?
Financial reporting *(Delay and integrity/quality)*	S/M	Some delays and errors in financial reporting of BEAC operations may affect the project	CRIS has already in place adequate accounting policies and procedures to record on separate general ledger the project transactions on BEAC financial system from which the financial reporting will be generated on excel sheet. Format of IFR has been discussed and will be agreed during negotiations.	No
Auditing *(Audit reports may not be acceptable and capture project activities)*	S/M	Auditing arrangements are yet to be put in place	KPMG-Cameroon is the current external auditor of BEAC and has been conclusively evaluated as acceptable to the Bank; hence his contract will be amended to include the audit of the project on specific TOR not later than 4 months after effectiveness.	No
OVERALL CONTROL RISK	S/M			
OVERALL RISK	S/M			

Risk rating: H = High; S = Substantial; M = Modest; and L = Low.

The overall residual FM risk is **moderate** provided that the arrangements below derived from the risk mitigating measures are satisfactorily implemented in a timely manner.

2. Detailed financial management arrangements

Staffing arrangements and capacity building

5. CRIS activities will be mainstreamed within BEAC institutional framework including its finance units which are decentralized to each operational department. As such, the project will set up its own Accounting Unit headed by a finance officer and an accounting assistant. The responsibility of this unit will be the mobilization of project resources from IDA (what about other sources of financing of the project?), bookkeeping, reporting and ensuring that the project financial requirements are complied with. They will be provided training and guidance on the specific of World Bank disbursement and FM procedures as deem appropriate.

Accounting Policies and Procedures

6. BEAC/CRIS will be responsible for accounting for all project transactions and reporting, which will comply with the applicable international accounting standards and policies so-called "normes SEBC" for banking institutions. The Project Implementation Manual (PIM), to be developed, will include a section covering the project's financial management as an Annex to BEAC existing manual of procedures.

7. The project FM will be based on, and completely integrated with, the current institutional Financial Regulations and Accounting Instructions of BEAC. This Annex will outline in detail the specifics of the project FM arrangements including accounting, internal audits, chart of accounts, funds flow, external audits, and quarterly financial reporting formats (interim financial reports - IFRs) and other financial statements, and job responsibilities for staff handling project financial affairs

Information systems

8. An integrated financial management system (IFMIS) so-called Oracle-E-Business Suite is already functioning at the BEAC. An "Accounting Unit" will be set up from this system to serve as a management information system (MIS), through which CRIS's report on the use of project funds would be captured. As BEAC financial system is not designed for project management purposes, CRIS's financial reports will be generated on Excel sheets with data extracted/imported from the Accounting Unit system. This computerized system would in particular facilitate mainly record-keeping (general accounting), financial and budgetary management, fixed assets management, procurement management, and preparation of quarterly IFRs as required by the Bank.

Internal controls and internal Auditing

9. BEAC has in place sound internal audit arrangements to assist management in ensuring the continuing adequacy of financial controls in conformity with the Central Bank governance requirements. This includes the institutional checks and balances built on its current organization chart and Internal Controls Department which is in charge of internal audit functions. It is agreed that CRIS will be subjected to regular internal audits which reports will be submitted to project Steering Committee, the Central Bank Audit Committee and World Bank supervision missions.

Disbursement Arrangements

Flow of funds

10. ***Designated Account*** – The BEAC/CRIS will establish within its own books one (1) XAF-denominated Designated Account (DA) under the IDA Credit and Grant. The DA will receive deposits/transfers from the IDA Credit and Grant Accounts.

11. ***Project Accounts*** – The BEAC shall open within its own books and operate a Project Accounts (PA) that will form the primary source of financing for project activities. Required counterpart contributions will be deposited into the PA in line with the terms of the financing agreements.

12. It is agreed that BEAC/CRIS will be fully responsible for the management of the project accounts including signatories in accordance with BEAC financial regulations. Funds flow arrangements for the project shall be as follows:

    (a) IDA will make an initial advance disbursement from the proceeds of the credit and/or grant by depositing into the BEAC/CRIS-operated DA;

    (b) actual expenditure will be reimbursed through submission of Withdrawal Applications together with acceptable quarterly IFRs;

    (c) counterpart funds will be allocated through respective the central bank budgetary processes, and deposited into CRIS's Project Accounts in accordance with requirements set forth in the project agreements; and

    (d) BEAC/CRIS will be responsible for direct payments and all payments out of the DAs, including remittances to respective implementing entities.

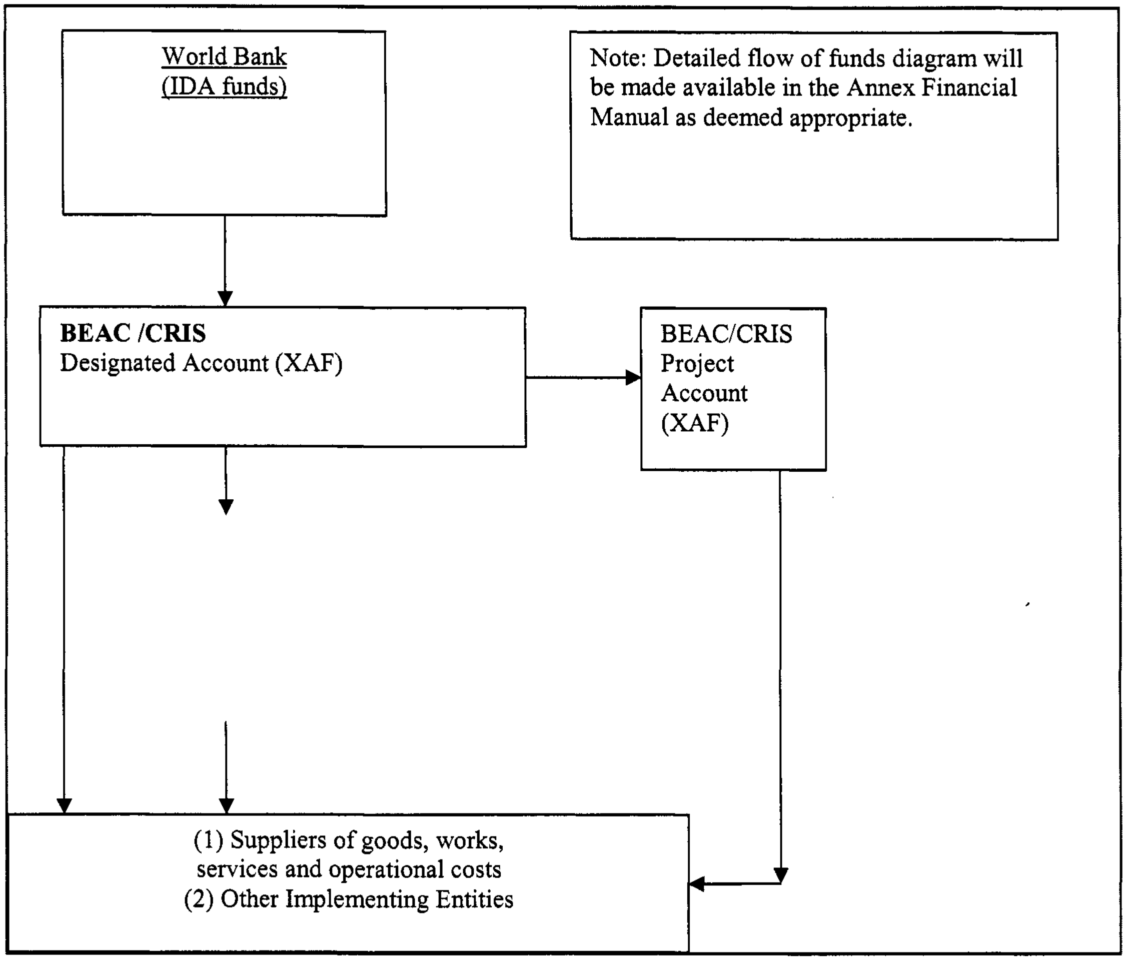
    (e) Within each Partner State, BEAC may use its country facility/network to ensure the payment and recording of the transactions incurred by the local implementing entity based upon the approved annual work plan and budget and in accordance with BEAC financial regulations and procedures.

Disbursement methods

13. The report-based disbursements will apply to the project. Requests for disbursement will be prepared by CRIS and submitted to IDA on the basis of cash flow projections for eligible expenditures derived from approved work plans. The request for reimbursement will be supported by quarterly unaudited IFRs which will include a six-month cash forecast. Upon Credit and Grant effectiveness, IDA will make advance disbursement in agreed proportions from the proceeds of the Credit and the Grant into the project DA to expedite project expenditures as evidenced in the quarterly IFRs. The ceiling of the advance will be an amount equal to six months project expenditures as shown in the cash forecast included in the application for withdrawal. Another acceptable method of withdrawing funds under this arrangement is the direct payment method, involving direct payments to suppliers for works, goods and services, upon the borrower's request. Payments may also be made to a supplier's commercial bank for expenditures against pre-agreed special commitments. Direct payment amounts will be included in quarterly IFRs.

14. The World Bank Disbursement Letter will stipulate the minimum value for applications reimbursement, direct payment and special commitment, as well as detailed procedures to be complied with in order to withdraw funds from IDA under the respective financing arrangements.

15. The flow of funds from IDA and financing is shown below.



Remedies

16. If ineligible expenditures are found to have been made from DA, BEAC will be obligated to refund the same. If the DA remains inactive for more than six months, the Bank may reduce the amount advanced.

17. The Bank will have the right to suspend disbursement of the funds if significant terms of financing agreements, including reporting requirements, are not complied with.

Financial Reporting and Monitoring

18. **Interim Financial Reports (IFR):** It is agreed that BEAC/CRIS will prepare and submit to the World Bank an Interim Financial Report (IFR) not later than 45 days after the end of each calendar quarter. The contents of these reports should, at a minimum, include the following: set forth sources and uses of funds by project activity/component, and statement of actual and budget expenditures, both cumulatively and for the period covered by said report, showing separately funds provided under the IDA, other financiers and counterpart funding, and explains variances between the actual and planned uses of such funds and the fund balance supported by bank statements and reconciliations. Formats of IFRs and annual financial statements will be prepared by BEAC/CRIS and agreed upon during the negotiations with the Bank.

19. **Project Financial Statements:** At the end of each financial year, BEAC/CRIS will prepare financial statements for the project in accordance with Generally Accepted Accounting Practice. These Financial Statements will comprise of: (a) a *Balance Sheet,* reflecting the assets, liabilities and funding of the project; (b) a *Statement of Sources and Uses of Funds/Cash Receipts and Payments,* which recognizes all cash, receipts, cash payments and cash balances; and separately identifies payments by third parties on behalf of the entities (if any); (c) the *Accounting Policies Adopted and Explanatory Notes,* cross-referenced to the Balance Sheet, etc.; and (d) a *Management* Assertion that project funds have been expended for the intended purposes as specified in the relevant financing agreements.

20. Project financial statements shall be prepared in accordance with: (i) International Public Sector Accounting Standards (IPSAS) which *inter alia* includes the application of the cash basis of recognition of transactions; or (ii) International Financial Reporting Standards (IFRS) for entities applying the accrual basis of accounting. Indicative formats of financial statements will be agreed within six months following effectiveness.

External audit

21. BEAC has currently in place sound audit arrangements that include an Audit Committee and two external auditors with international reputation. One out the two auditors has been evaluated as Bank-accredited auditor in Cameroon. Hence it is proposed to amend its contract to include the specific TOR for the audit of the project (to be agreed at Negotiations). Audited Project Financial Statements will be submitted to the World Bank and Audit Committee by BEAC/CRIS within six months after the end of the fiscal year.

22. The external audit will cover all financiers at all levels of project execution. The auditors will be required to express an opinion on the audited project financial statements in compliance with International Standards on Auditing. The auditors will provide: (i) a unique audit opinion on the project financial statements and (ii) a management letter containing the auditor's assessment of the internal controls, accounting system relating to the project and compliance with financial covenants in the Project Financing Agreements; and suggestions for improvement, which will be submitted to management for follow-up.

23. At the time of writing this report, no audit report was overdue by BEAC to the IDA.

Supervision Plan

24. The supervision plan will be function of the project risks during its implementation in accordance with the risk-based approach. As the overall residual risk is moderate, it is proposed to conduct one supervision mission during the first fiscal year. Besides implementation support and FM oversight will be carried out before effectiveness and thereafter through the review of quarterly IFRs and annual audited financial statements of the project.

Annex 8: Procurement Arrangements

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

A. General

1. Procurement for this project would be carried out in accordance with the World Bank "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 and revised in October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and revised in October 2006, and the provisions stipulated in the Development Credit Agreement. The general description of various items under different expenditure category is described below. For each contract to be financed by the credit, the different procurement (goods and non-consulting services) methods or consultant selection methods, prequalification, estimated costs, prior review requirements, and time-frame would be agreed between the Recipient and the Bank Task Team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. To the extent practicable The Bank's Standard Bidding Documents for goods and Standard Requests for Proposals for Proposals as well as all standard evaluation forms would be used throughout project implementation.

Advance contracting and retroactive financing

2. In order to accelerate program implementation, the borrower has expressed its intention to proceed with the initial steps of procurement before signing the related Financing Agreement. The procurement procedures, including advertising, will be done in accordance with the Bank's Guidelines in order for the eventual contracts to be eligible for Bank financing, and the normal review process by the Bank will be followed in accordance with the Procurement and Consultant Guidelines.

3. The Borrower will undertake such advance contracting at its own risk, and any concurrence by the Bank with the procedures, documentation, or proposal for award does not commit the Bank to make a credit for the project. If the contract is signed, reimbursement by the Bank of any payments made by the Borrower under the contract prior to credit signing is referred to as retroactive financing and is only permitted within the limit specified in the Disbursement Letter.

Advertising

4. A comprehensive General Procurement Notice (GPN) will be prepared by the Borrower and published in the United Nations Development Business online (UNDB online) and in the Development Gateway Market (dgMarket) following Board Approval, to announce major

consulting assignments and any ICB[2]. The GPN shall include all ICB for works and goods contracts and all large consulting contracts (i.e., those estimated to cost US$200,000 or more). In addition, a specific procurement notice is required for all works and goods to be procured under ICB in dgMarket and UNDB online. Requests for expressions of interest for consulting services expected to cost more than US$200,000 shall be advertised in UNDB online and in dgMarket. An Expression of Interest (EOI) is required in the national gazette or a national newspaper of the CEMAC member countries or in a BEAC electronic portal of free access for all consulting firm services regardless of the contract amount. In the case of NCB[3], a specific procurement notice will be published in the national gazette or a national newspaper of the CEMAC member countries or in a BEAC electronic portal of free access. Contracts awards will also be published in UNDB and dgMarket, in accordance with the Bank's Procurement Guidelines (para. 2.60) and Consultants Guidelines (para. 2.28).

Procurement of Works

There will be no works under the project.

Procurement of Goods

5. Goods procured under this project would include: hardware and software, communication equipment including VSAT, office equipments, etc... Goods estimated to cost more than US$250,000 will be procured through ICB. Goods estimated to cost more than US$50,000 but less than US$250,000 will be procured through NCB. The procurement will be done using the Bank's SBD for all ICB and BEAC's National SBD agreed with or satisfactory to the Bank.

6. In the absence of BEAC's national standard bidding documents, the Bank SBD will be used for NCB, with appropriate modifications relating to provisions for "advertising and notification", "currencies of bid and payment", "settlement of disputes", deletion of the domestic preference provision, etc. This should ensure that: (i) methods used to evaluate bids and award contracts are known to all bidders and not applied arbitrarily; (ii) all bidders have adequate response time (four weeks) to prepare and submit bids; (iii) bid evaluation and bidder qualification are clearly specified in bidding documents; (iv) no preference margin is granted to domestic manufacturers; (v) eligible firms are not excluded from participation; (vi) awards are made to the lowest evaluated bidder in accordance with pre-determined and transparent methods; (vii) bid evaluation reports clearly state the reasons for the rejection of any non-responsive bid.

7. Procurement of readily available off-the-shelf goods that cannot be grouped into bid packages of US$50,000 or more may be procured through shopping in conformity with the clause 3.5 of the procurement guidelines. Request of such quotation will include a clear description and quantity of the goods, as well as requirements for delivery time and point of delivery. The sample request for quotations attached to the manual of procedures will be used.

[2] ICB: International Competitive Bidding
[3] NCB: National Competitive Bidding

Procurement of non-consulting services

8. Non-Consulting services under this project include maintenance of the office electronic equipment and other services such as printing, and editing. Non-Consulting services are likely not to exceed the equivalent of US$50,000 per contract. Procurement of such services will be done using prudent shopping procedures in conformity with the clause 3.5 of the procurement guidelines.

Selection of Consultants

9. Consulting services will be for the following activities: (i) technical assistance, (ii) technical and feasibility studies, (iii) financial audits, (iv) training, etc. These consulting services will be procured with the most appropriate method among the following which are allowed by Bank guidelines and included in the approved procurement plan: Quality-and Cost-Based Selection (QCBS), Quality-Based Selection (QBS), Selection under a Fixed Budget (SFB), Least-Cost Selection (LCS). Selection Based on Consultants' Qualifications (CQ) will be used for assignments that shall not exceed US$100,000. Single Source selection shall also be used in accordance with the provisions of paragraphs 3.9 to 3.13 of the Consultant Guidelines, with IDA's prior agreement. All Terms of Reference will be subject to IDA prior review.

10. Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of CEMAC member countries consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

11. Assignments in excess of US$200,000, and specialized technical assistance assignments, must be procured on the basis of international short-lists after appropriate advertisement in UNDB on line, DgMarket and in the national gazette or a national newspaper of CEMAC member countries or in a BEAC electronic portal of free access.

12. Consultant for services meeting the requirements of section V of the consultant guidelines, will be selected, under the provisions for the *Selection of Individual Consultants,* through comparison of qualifications among candidates expressing interest in the assignment or approached directly.

Operational Costs

13. With respect to services (computers maintenance, etc), the project will procure by service contracting for a defined period.

Trainings, Workshops, Seminars and Conferences

14. Training, workshops, seminars and conferences attendance and study tours will be carried out on the basis of approved annual programs that will identify the general framework

of training and similar activities for the year, including the nature of training/study tours/workshops, the number of participants, and cost estimates.

B. Assessment of the borrower's capacity to implement procurement

Procurement capacity

15. The procurement capacity assessment conducted by IDA concerned BEAC as it was agreed between participating institutions in the project that this institution will have the overall responsibility for project coordination and for the technical aspects of project activities relating to BEAC, while participating institutions will be responsible for the technical aspects of their respective components implementation. It is also understood that well after the beginning of the project implementation, management delegation responsibility may be granted to BDEAC for its component implementation after due diligence is conducted on BDEAC capacity assessment and the appropriate review and adjustment of project arrangements is done.

16. Key issues and risks concerning procurement for implementation of the project have been identified and used to prepare an action plan (see table of schedule of actions to be carried out below). The procurement capacity assessments of the entity designated by the BEAC to assume the project day to day coordination and administrative function, which is the Financial Institutions Reform Management Unit (*Unité de Gestion de la Reforme des Institutions Financières de la CEMAC-UGRIF*) already established pointed to a weak capacity of this unit.

17. The overall project risk for procurement is substantial because, among other factors, although the BEAC is already implementing a Bank financed project, the entity in charge of the present project management is based on a completely new different unit with new staff.

Table 1: Assessment of the Implementing Entity

Procurement Unit	Financial, accounting and administrative procedures*	Capacity and experience in World Bank procurement procedures *	Support and control system *	Organization and efficiency of the public tenders board *	Procurement planning and monitoring/control systems used *	Record keeping and filing system *	Risk Assessment
The project management Unit which is the Financial Institutions Reform Management Unit (UGRIF)	The UGRIF has no manual of procedures.	No procurement specialist has yet been appointed or recruited.	Not assessed	Special Procurement commissions for 3 tranches of contract values through thresholds [(i) contract amounts below CFA francs 10 millions, (ii) between CFA francs 10 millions and CFA francs 40 millions, and (iii) above CFA francs 40 millions] attached to the project have been established by BEAC Governor decree No27/GR/2006 dated September 8, 2006. Unfortunately, this decree does not clarify the designation, the role, the responsibility and the composition of bid evaluation committees. The decree doesn't also allow flexibility in the functioning of the bid evaluation committee as the special commissions are in charge of the bid openings, bid evaluations and contract awards.	Poor: Only the Project Coordinator has been appointed by the BEAC. Other project management unit staff is not yet on board. And therefore not familiar with procurement planning and no monitoring/control systems is used.	Poor. There is no designated filling equipment and space. A procurement specialist is no yet on board to set up an efficient filling system	Substantial for all items assessed: (i) financial accounting; (ii) capacity and experience; (iii) record keeping and filling system, (iv) Organization; and (v) Procurement planning.

* The scale used for the assessment is the following: poor, fair, satisfactory.

Table 2: Action plan for the Implementing Entity

Procurement Unit	Actions	Proposed completion date	Supervision
The project management unit, which is the Financial Institutions Reform Management Unit (UGRIF)	Submit a manual of procedures with a detailed section on procurement arrangement.	By effectiveness	Every 6 months
	Recruitment of a qualified procurement specialist	By effectiveness	
	- The project management unit staff (Coordinator, Accountant, Financial management specialist and if needed procurement specialist) needs to receive a training on basic World Bank procurement procedures. - The project special procurement commissions' members shall receive adequate training on Bank procurement procedures. - The performance of the project special procurement commissions needs to be monitored and evaluated. - Regarding the technical evaluation of consulting services assignment, all the Sub-Committee for bids evaluation shall evaluate each technical proposal using an evaluation committee of three or more specialists in the sector.	- By one month after the recruitment of the project management unit staff. - After the amendment of the special procurement commissions' decree and no later than 4 months after the credit effectiveness; and follow up during project Implementation - During advance contracting and follow up during project implementation - During advance contracting and follow-up during project Implementation	
	Ensure the capacity of the procurement specialist to be recruited is adequate in procurement planning and monitoring/Control	Before the recruitment of the procurement specialist	
	Acquire filing equipment and set up an efficient filing system.	Prior to one month after the credit effectiveness.	
	Amend in a satisfactory manner to the Bank, the special procurement commission's decree to clarify the designation, the role, the responsibility and the composition of bid evaluation committees. Members from the bid evaluation committees and the special procurement commissions should not be identical unless for small value contracts. The procurement specialist may participate as an observer at the special procurement commission meetings and shall be member of all bid evaluation committee. The revised decree should be flexible in order to allow the participation in the bid evaluation committee of the specialists of the sector related to the tender and the procurement specialist of the UGRIF. Furthermore the decree may need to be revised to reflect the fact that the project is no more under the responsibility of the External Financial Relations Directorate but under the International Relations Directorate.	By effectiveness	

Procurement institutional responsibility and implementation arrangements

18. BEAC will be responsible for the overall financial and administrative aspects of the project, including procurement for all participating institutions. BEAC has established a Financial Institutions Reform Management Unit (*Unité de Gestion de la Reforme des Institutions Financières de la CEMAC-UGRIF*) which is in charge of day to day project coordination and administrative function from the project preparation to project implementation. This unit is under the responsibility of the Director of the International Relations. A project coordinator, who is the Deputy Director of the International Relations Directorate, is already on board through the Governor decree No35/GR/2008 dated May 7, 2008; and is coordinating project activities including project preparation. A manual of accounting financial and administrative procedures as well as a project implementation manual will be drafted in order to outline the procurement arrangement and the relevant procedures applicable to the management of the credit.

19. The assessment of the project management unit (UGRIF) was conducted before appraisal (see above table of the schedule of actions to be carried out). BEAC has set up special procurement commissions through its Governor's decree but this decree needs to be amended as reflected in the above action table. A qualified procurement specialist with an acceptable knowledge of the World Bank procurement procedures will be recruited on a competitive basis. This procurement specialist will be located at the UGRIF (BEAC) and will initially have the main responsibility for procurement activities conducted within the project. If later on some of the procurement function is delegated to other institutions such as BDEAC, the project arrangements, including procurement arrangements, will be reviewed and adjusted as necessary during project implementation. In this case, a capacity assessment alongside with an action plan would be elaborated by the Bank task team before this delegation could be effective.

20. Regarding the evaluation of technical proposals for consulting services assignment, all the Sub-commissions shall evaluate proposals using a minimum of three specialists in the sector.

Procurement Plan

21. At appraisal, the Borrower prepared a procurement plan for project implementation providing the basis for the procurement methods. This plan, covering the first 18 months of project implementation, was discussed and agreed upon by the Borrower and the project team at negotiations. It will be available in the Project's database and a summary will be disclosed on the Bank's external website once the project is approved by IDA Board of Executive Directors. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvement in institutional capacity.

Publication of Results and Debriefing:

22. Publication of results of the bidding process is required for all ICBs, LIBs and Direct Contracting. Publication should take place as soon as the no objection is received, except for Direct Contracting which may be done quarterly and in a simplified format. Publication of results for NCB and Shopping should follow the requirements of the procurement section of the project's manual of procedures. The disclosure of results is also required for selection of consultants. All consultants competing for the assignment should be informed of the result of the technical evaluation (number of points that each firm received) before the opening of the financial proposals, and at the end of the selection process the results should be published. The publication of results in selection of consultants applies to all methods, however for CQS and SSS the publication may be done quarterly and in a simplified format. The publication may be done through Client Connection. Losing bidders/consultants shall be debriefed on the reasons why they were not awarded the contract if they request explanation.

Fraud, Coercion and Corruption

23. The procuring entity as well as Bidders/Suppliers/Contractors shall observe the highest standard of ethics during the procurement and execution of contracts financed under the program in accordance with paragraphs 1.15 & 1.16 of the Procurement Guidelines and paragraphs 1.25 & 1.26 of the Consultants Guidelines.

C. Frequency of Procurement Supervision

24. The capacity assessment of the implementing agencies has recommended supervision missions to visit the field at least twice a year to carry out post review of procurement actions.

D. Details of the Procurement Arrangements

Goods, and Non Consulting Services

(a) List of contract packages to be procured:

1	2	3	4	5	6	7	8	9
Ref. No.	**Contract (Description)**	**Estimated Cost (US$ 000 equivalent)**	**Procurement Method**	**Prequalification (yes/no)**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Expected Bid-Opening Date**	**Comment/ Completion Date**
				BEAC				
1	Acquisition of payment risk management system including technical assistance	6,493	ICB	NO	NO	Prior	April 2009	Dec 2010
				BDEAC				
2	Acquisition of a videoconferencing system	250	ICB	NO	NO	Prior	Jan 2009	May 2009
3	Acquisition of IT equipments for the establishment of guidelines for auditors in line with international practices	100	NCB	NO	NO	Prior	Dec 2008	May 2009
				COBAC				
4	Acquisition of didactic materials	111.1	NCB	NO	NO	Prior	Jan 2009	Feb 2009

(b) ICB Contracts estimated to cost above US$250,000 for goods per contract, the first NCB contracts, all Direct Contracting will be subject to prior review by the Bank,

2. Consulting Services

(a) List of consulting assignments with selection methods and time schedule.

1	2	3	4	5	6	7
Ref. No.	**Description of Assignment**	**Estimated Cost (US$ 000 equivalent)**	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date**	**Comments/ Completion Date**
			BEAC			
1	Audit of the BEAC economic analysis system	333	QCBS	Prior	May 2009	Dec 2009
2	Audit of the BEAC programming system	333	QCBS	Prior	June 2009	Jan 2010
3	Preparation of the specifications for the implementation of a statistical base for policy-making	222	QCBS	Prior	Jan 2009	April 2009
4	Implementation of the statistical base for policy-making	1,333	QCBS	Prior	May 2009	Dec 2009
5	Implementation of an economic, monetary and financial database	1,922	QCBS	Prior	Dec 2008	July 2010
6	Assistance on contracting for the implementation of economic, monetary and financial database	1,189	QCBS	Prior	Dec 2008	Oct 2009
7	Establishment of a specialized documentation center	67	IC	Prior	April 2009	July 2009
8	Capacity building for BEAC staff on reserve management	133	QCBS	Prior	April 2009	Oct 2009
9	Recruitment of a consultant to elaborate the terms of reference, carry out pre-requisite training, and assistance at the reception of software on balance of payments	200	IC	Prior	Feb 2009	Dec 2009
10	Installation of new software on balance of payments, included installation, configuration, redeployment and training	2,222	QCBS	Prior	Dec 2009	Dec 2010
			COBAC			
11	Translation of the regulation and the chart of accounts related to microfinance institutions in English	30,000	IC	Post	April 2009	Sept 2009
12	Translation of the regulation and the chart of accounts related to microfinance institutions in Spanish	30,000	IC	Post	April 2009	Sept 2009
13	Translator for the					

	translation of the regulation and the chart of accounts related to microfinance institutions in Arabic	30,000	IC	Post	April 2009	Sept 2009
14	Conception of a integrated management software for microfinance institutions	67	QCBS	Post	Nov 2009	June 2010
15	Recruitment of a consultant for perfecting the computer systems master plan	667	QCBS	Prior	Feb 2009	Oct 2010
			BDEAC			
16	Preparation of a computer systems master plan for BDEAC	330	QCBS	Prior	Jan 2009	April 2009
17	Reform of the chart of accounts to take into account the principles of Basel and the norms of IAS-IFRS	150	QCBS	Prior	Feb 2009	June 2009

25. (b) Consultancy services estimated to cost above US$100,000 for firms and US$50,000 for individuals per contract, and Single Source selection of consultants (firms and individuals) will be subject to prior review by the Bank, as well as the first contract to be awarded in accordance with each selection method of consulting firms and individual consultants regardless of contract amount..

26. (c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

1. The proposed project will help strengthen regional institutions which will contribute to facilitating regional integration and economic growth and help build the foundation for improved financial sector effectiveness. Through improved monetary and reserve policies, the project will expand and unify the economic space across countries which should help encourage investments and cross-border flows. Improved supervision will help create confidence in the banking sector and in a truly common financial space across borders. Also, by introducing new financial instruments, the project will contribute to capturing an increased portion of regional savings for investment, particularly in much-needed infrastructure. Through reforms in key financial institutions and policies, the project aims to improve access to finance for the private sector, including low-income households. Also, actions taken in connection with the project will result in a significant improvement of the finances of regional institutions, particularly those of BDEAC *(to be completed at appraisal).*

2. The proposed project will help strengthen regional institutions which will contribute to facilitating regional integration and economic growth and help build the foundation for improved financial sector effectiveness. Through improved monetary and reserve policies, the project will expand and unify the economic space across countries which should help encourage investments and cross-border flows. Improved supervision will help create confidence in the banking sector and in a truly common financial space across borders. Also, by introducing new financial instruments, the project will contribute to capturing an increased portion of regional savings for investment, particularly in much-needed infrastructure. Also, actions taken in connection with the project will result in a significant improvement of the finances of regional institutions, particularly those of BDEAC.

3. Through reforms in key financial institutions and policies, the project aims to improve access to finance for the private sector, including low-income households. The project will play an important role in increasing the availability of investment capital and infrastructure to accelerate growth in the region. Numerous studies have demonstrated the negative affect of inadequate infrastructure, particularly high transportation costs, on Africa's competitiveness.

4. The project will assist in strengthening the financial performance of BEAC and BDEAC. Improvements in the overall management of the Central Bank and in the management of its reserves should strengthen further BEAC's financial position. With the support of the project, BDEAC will introduce further reforms in its financial management and install a modern information system which will enable it to implement more efficient policies and achieve better operational results.

Annex 10: Safeguard Policy Issues

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

No issues arise (Project is category C).

Annex 11: Project Preparation and Supervision

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

	Planned	Actual
PCN review	3/30/2006	6/12/2006
Initial PID to PIC	4/15/2006	12/18/2007
Initial ISDS to PIC	4/15/2006	6/16/2008
Appraisal	9/15/2008	9/15/2008
Negotiations	10/14/2008	
Board/RVP approval	12/04/2008	
Planned date of effectiveness	03/04/2009	
Planned date of mid-term review	03/15/2011	
Planned closing date	06/30/2014	

Key institutions responsible for preparation of the project:
BEAC
Bank staff and consultants who worked on the project included:

Name	Title	Unit
Andres Jaime	Sr. Financial Specialist (TTL)	AFTFP
Sameena Dost	Sr. Counsel	LEGAF
Wolfgang Chadab	Sr. Finance Officer	LOAFC
Faustin-Ange Koyasse	Sr. Program Officer	AFTP3
Nestor Coffi	Senior Financial Management Specialist	AFTFM
Aissatou Diallo	Finance Officer	LOAFC
Kouami Messan	Procurement Specialistt	AFTPC
Fridolin Ondobo	Financial Management Specialist	AFTFM
Aissatou Diallo	Finance Officer	
Helene Ndjebet Yaka	Operations Analyst	AFMCM
Ivan Rossignol	Sector Leader	AFTFP
Herminia Martinez	Consultant	AFTFP
Adja M. Dahourou	Consultant	AFMBF
Irene Chacon	Operations Analyst	AFTFP
Andrea Vasquez-Sanchez	Sr. Program Assistant	AFTFP
John Pollner	Lead Financial Sector Specialist (peer reviewer)	ECSPF
Djibrilla Issa	Sr. Financial Sector Specialist (peer reviewer)	AFTFP
Ann Rennie	Lead Financial Sector Specialist (peer reviewer)	AFTFP

Bank funds expended to date on project preparation:
- Bank resources:
- Trust funds:
- Total:

Estimated Approval and Supervision costs:
- Remaining costs to approval:
- Estimated annual supervision cost:

Annex 12: Documents in the Project File

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

BEAC. Statuts de la Banque des Etats de l'Afrique Centrale. Septembre 2007

BEAC. Communiqué final de la 8ème session ordinaire de la Conférence des Chefs d'Etats de la CEMAC tenue à N'Djamena le 25 avril 2007.

BEAC. Esquisse du Plan Stratégique d'Enterprise 2008-2010. Octobre 2007.

BEAC. Plan Stratégique d'Enterprise Période 2008-2010. Mars 2008.

BEAC. Decision Number 59 of the Governor applying the Statutes and relating to the government of the Bank.

BEAC. Plan d'Action des Institutions Financières de la CEMAC. Draft. Avril 2007

BEAC. Organisation du Projet et Aspects Inter-institutionnels. Avril 2007.

BDEAC. Plan d'Action de la BDEAC. Juin 2007.

CEMAC. Plan d Action de la CEMAC. April 2007.

COBAC. Plan d'Action de la COBAC 2007-2017..

COSUMAF. Plan d'Action 2007-2012 de Développement du Marché Financier de l'Afrique Centrale. Avril 2007.

GABAC. Projet du Plan d'Action de Renforcement des Capacités du GABAC. Avril 2007.

AFD. Mission d'évaluation des priorités de renforcement organisationnel de la BDEAC. 2006.
World Bank/IMF. Communauté Economique et Monétaire d'Afrique Centrale. Programme d'Evaluation du Secteur Financier. Aide-mémoire (Révisé). Juin 2006.

IMF. Central African Economic and Monetary Community: Financial System Stability Assessment, including reports on the observance of standards and codes on the following topics: Monetary and Financial Policy Transparency and Banking Supervision. August, 2006.

Annex 13: Statement of Loans and Credits

CENTRAL AFRICA: CEMAC Regional Institutions Support Project

Project ID	FY	Purpose	Original Amount in US$ Millions						Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P103189	2007	3A-Africa Stockpiles1 MMT GEF (FY07)	0.00	0.00	0.00	13.40	0.00	2.35	0.00	0.00
P094103	2007	3A-Telecommunications APL (FY07)	0.00	164.50	0.00	0.00	0.00	166.32	0.00	0.00
P094084	2007	3A-W.Af Agric Prod Prgm APL WAAPP (FY07)	0.00	45.00	0.00	0.00	0.00	45.85	0.00	0.00
P094917	2006	3A-WAPP APL 1 (CTB Phase 2) Project	0.00	60.00	0.00	0.00	0.00	60.45	0.00	0.00
P094916	2006	3A-WAPP APL 2 (OMVS Felou HEP)	0.00	75.00	0.00	0.00	0.00	75.36	0.00	0.00
P093826	2006	3A-SRB M. Water Res. Dvpt. APL (FY06)	0.00	91.96	0.00	0.00	0.00	112.90	4.00	0.00
P083751	2006	3A-West &Central Afr Air Tran TAL (FY06)	0.00	11.97	0.00	0.00	0.00	32.51	-1.53	0.00
P079734	2006	3A-E Afr Trade & Transp Facil (FY06)	0.00	184.02	0.00	0.00	0.00	172.81	18.72	0.00
P075776	2006	3A-W Africa Stockpiles 1 GEF (FY06)	0.00	0.00	0.00	21.74	0.00	5.12	3.21	0.00
P092473	2005	3A-Afr Emergency Locust Prj (FY05)	0.00	59.50	0.00	0.00	0.00	40.77	14.64	-3.21
P070547	2005	3A-GEF Grndwtr & Drght Mgmt TAL (FY05)	0.00	0.00	0.00	7.00	0.00	6.35	1.56	0.00
P080413	2005	3A-HIV/AIDs Great Lakes Init APL (FY05)	0.00	0.00	0.00	0.00	0.00	15.83	3.14	0.00
P080406	2005	3A-ARCAN SIL (FY05)	0.00	0.00	0.00	0.00	0.00	5.03	0.91	0.00
P075994	2005	3A-WAPP Phase 1 APL 1 (FY05)	0.00	40.00	0.00	0.00	0.00	37.86	7.38	0.00
P082613	2004	3A-Regional HIVAIDS Treatment Prj (FY04)	0.00	0.00	0.00	0.00	0.00	29.68	23.74	0.00
P074525	2004	3A-WAEMU Capital Markets Dev FIL (FY04)	0.00	96.39	0.00	0.00	0.00	98.46	74.31	42.94
P074850	2004	3A-HIV/AIDS Abidjan Lagos Trnspt (FY04)	0.00	0.00	0.00	0.00	0.00	2.07	0.63	0.00
P070256	2004	3A-GEF Niger River Basin (FY04)	0.00	0.00	0.00	13.00	0.00	4.04	4.05	0.00
P069258	2004	3A-Southern Afr Power Mrkt APL 1 (FY04)	0.00	178.60	0.00	0.00	0.00	191.45	166.18	0.00
P064573	2004	3A-GEF Senegal River Basin (FY04)	0.00	0.00	0.00	5.26	0.00	2.84	4.56	0.00
P072881	2003	3A-BEAC Reg Payment System (FY03)	0.00	14.50	0.00	0.00	0.00	8.03	5.07	0.00
P070252	2003	3A-GEF Lake Chad Basin (FY03)	0.00	0.00	0.00	2.90	0.00	1.72	2.90	2.25
P070073	2003	3A-GEF Nile Transbound Env Action (FY03)	0.00	0.00	0.00	8.00	0.00	8.04	13.47	0.00
P063683	2001	3A-Trade Facil SIL (FY01)	0.00	5.00	0.00	0.00	0.00	4.85	-0.31	0.54
		Total:	0.00	1,026.44	0.00	71.30	0.00	1,130.69	346.63	42.52

CENTRAL AFRICA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1999	AIF	0.00	16.83	0.00	0.00	0.00	0.31	0.00	0.00
1999	AIF (Mgmt)	0.00	0.06	0.00	0.00	0.00	0.00	0.00	0.00
2003	AIFH	0.00	18.25	0.00	0.00	0.00	0.03	0.00	0.00
2005	Afren	0.00	0.84	0.00	0.00	0.00	0.80	0.00	0.00
2005	Africa Re	0.00	0.00	10.40	0.00	0.00	0.00	10.40	0.00
2002	Africap	0.00	1.48	0.00	0.00	0.00	1.06	0.00	0.00
2006	Cape II	0.00	9.62	0.00	0.00	0.00	3.00	0.00	0.00
2005	Celtel	0.00	11.83	0.00	0.00	0.00	11.83	0.00	0.00
2005	LFI	0.00	2.02	0.00	0.00	0.00	0.27	0.00	0.00
2004	Olam	30.00	5.60	0.00	0.00	30.00	5.60	0.00	0.00
2002	Osprey	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00
2001	PAIP	0.00	27.27	0.00	0.00	0.00	8.62	0.00	0.00
2002	SABCO	0.00	10.00	0.00	0.00	0.00	10.00	0.00	0.00
2006	SABCO	20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2006	Standard Bank GR	0.00	0.00	75.00	0.00	0.00	0.00	0.00	0.00
2004	Tullow	0.00	14.40	0.00	0.00	0.00	14.40	0.00	0.00
2006	Veolia Water AMI	44.62	31.87	0.00	0.00	0.00	0.00	0.00	0.00
	Total portfolio:	94.62	150.08	85.40	0.00	30.00	55.93	10.40	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
2006	ARECO	0.00	0.02	0.00	0.00
2006	Brait IV	0.00	0.03	0.00	0.00
2004	BusPartners	0.00	0.00	0.00	0.00
2003	African Lakes	0.00	0.01	0.00	0.00
2006	CCS	0.02	0.00	0.00	0.00
	Total pending commitment:	0.02	0.06	0.00	0.00

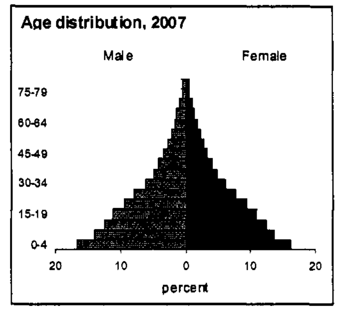
Annex 14: Country at a Glance

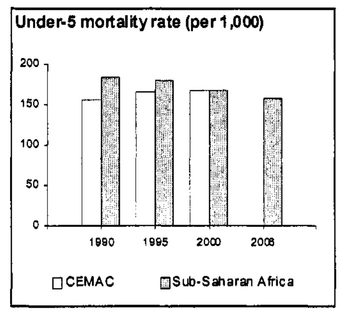
CENTRAL AFRICA: CEMAC Regional Institutions Support Project

CEMAC at a glance

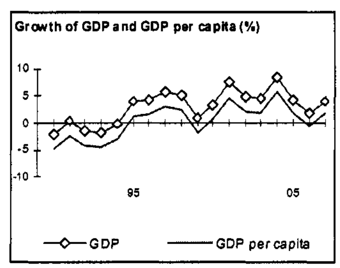
10/3/08

Key Development Indicators	Economic and Monetary Community Central Africa	Sub-Saharan Africa	Low income
(2007)			
Population, mid-year (millions)	39.2	800	1,296
Surface area (thousand sq. km)	3,020	24,242	21,846
Population growth (%)	2.2	2.4	2.1
Urban population (% of total population)	47	36	32
GNI (Atlas method, US$ billions)	48.6	762	749
GNI per capita (Atlas method, US$)	1,240	952	578
GNI per capita (PPP, international $)	*1,920*	1,870	1,500
GDP growth (%)	4.0	6.2	6.5
GDP per capita growth (%)	1.8	3.7	4.3
(most recent estimate, 2000–2007)			
Poverty headcount ratio at $1.25 a day (PPP, %)	..	50	..
Poverty headcount ratio at $2.00 a day (PPP, %)	..	72	..
Life expectancy at birth (years)	50	50	57
Infant mortality (per 1,000 live births)	101	94	85
Child malnutrition (% of children under 5)	23	27	29
Adult literacy, male (% of ages 15 and older)	..	69	72
Adult literacy, female (% of ages 15 and older)	..	50	50
Gross primary enrollment, male (% of age group)	109	99	100
Gross primary enrollment, female (% of age group)	90	88	89
Access to an improved water source (% of population)	64	58	68
Access to improved sanitation facilities (% of population)	34	31	39





Net Aid Flows	1980	1990	2000	2007 *
(US$ millions)				
Net ODA and official aid	566	1,412	651	2,414
Top 3 donors (in 2006):				
Aid (% of GNI)	4.3	6.5	3.4	*6.5*
Aid per capita (US$)	30	56	20	63



Long-Term Economic Trends							
Consumer prices (annual % change)	8.4	0.2	0.8	5.0			
GDP implicit deflator (annual % change)	16.3	2.0	5.3	2.0			
Exchange rate (annual average, local per US$)	–	–	–	-			
Terms of trade index (2000 = 100)	..	110	100	130			
					1980–90	1990–2000	2000–07
					(average annual growth %)		
Population, mid-year (millions)	18.7	25.0	33.0	39.2	2.9	2.8	*2.5*
GDP (US$ millions)	14,630	23,261	21,961	58,620	2.8	2.3	*5.0*
		(% of GDP)					
Agriculture	25.3	21.9	20.2	16.9	2.0	4.7	..
Industry	34.1	31.7	41.9	41.9	..	..	..
Manufacturing	7.9	11.6	12.9	11.1	4.7	1.5	..
Services	40.6	46.4	37.9	41.3	2.0	1.0	..
Household final consumption expenditure	56.9	66.4	58.5	58.5	2.9	2.3	*3.7*
General gov't final consumption expenditure	11.9	13.4	9.7	9.3	4.2	0.8	*2.4*
Gross capital formation	23.4	17.2	19.5	20.6	*-13.8*	1.9	*9.8*
Exports of goods and services	38.7	28.9	40.2	40.3	..	..	..
Imports of goods and services	32.6	25.9	27.9	28.6	..	..	*7.9*
Gross savings	..	*9.0*	22.7	26.3			

Note: Figures in italics are for years other than those specified. 2007 data are preliminary. .. indicates data are not available.

Balance of Payments and Trade

	2000	2007
(US$ millions)		
Total merchandise exports (fob)	..	..
Total merchandise imports (cif)	..	..
Net trade in goods and services	3,605	9,734
Workers' remittances and compensation of employees (receipts)	25	*16*
Current account balance	1,590	2,612
as a % of GDP	7.2	4.5
Reserves, including gold	..	..

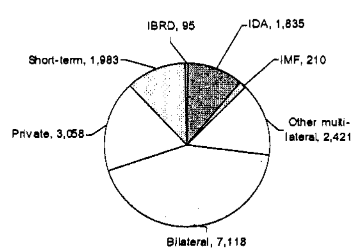
Central Government Finance

(% of GDP)		
Current revenue (including grants)	..	..
Tax revenue	..	..
Current expenditure	..	..
Overall surplus/deficit	..	..
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows

(US$ millions)		
Total debt outstanding and disbursed	21,131	*16,720*
Total debt service	997	*848*
Debt relief (HIPC, MDRI)	4,216	687
Total debt (% of GDP)	96.2	*32.4*
Total debt service (% of exports)	8.6	*2.8*
Foreign direct investment (net inflows)	506	*3,301*
Portfolio equity (net inflows)	0	*0*

Composition of total external debt, 2006



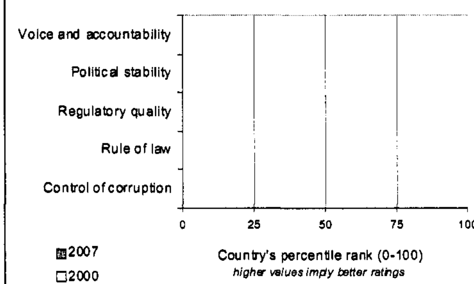
US$ millions

Private Sector Development

	2000	2008
Time required to start a business (days)	–	60
Cost to start a business (% of GNI per capita)	–	128.8
Time required to register property (days)	–	69

	2000	2007
Ranked as a major constraint to business (% of managers surveyed who agreed)		
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2007



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure

	2000	2007
Paved roads (% of total)	8.9	*10.0*
Fixed line and mobile phone subscribers (per 1,000 people)	1	*14*
High technology exports (% of manufactured exports)	*1.7*	*4.6*

Environment

Agricultural land (% of land area)	27	*27*
Forest area (% of land area)	34.8	..
Nationally protected areas (% of land area)	..	*11.3*
Freshwater resources per capita (cu. meters)	..	*22,417*
Freshwater withdrawal (% of internal resources)	*0.2*	..
CO2 emissions per capita (mt)	0.24	*0.40*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	6.3	*6.4*
Energy use per capita (kg of oil equivalent)	..	..

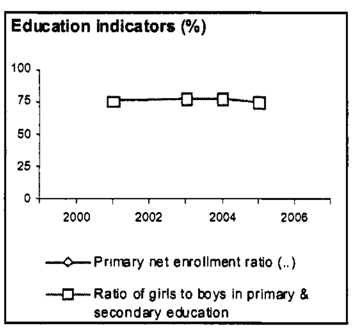
World Bank Group portfolio

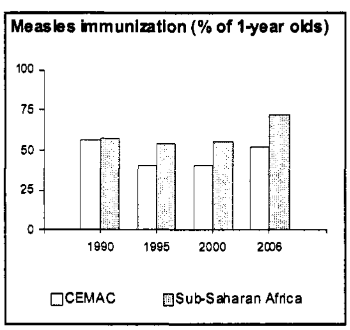
	2000	2007
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	343	78
Disbursements	9	0
Principal repayments	67	18
Interest payments	28	5
IDA		
Total debt outstanding and disbursed	1,882	1,922
Disbursements	86	41
Total debt service	31	43
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	68	204
of which IFC own account	19	117
Disbursements for IFC own account	3	28
Portfolio sales, prepayments and repayments for IFC own account	12	26
MIGA		
Gross exposure	0	0
New guarantees	0	0

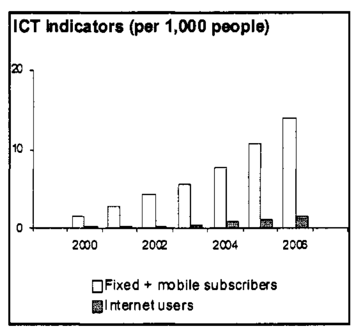
Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available. (DECDG) 10/3/08
– indicates observation is not applicable. Balance of payments items excluding exports and imports are simple sums and may not reconcile.
Economic and Monetary Community Central Africa (CEMAC) includes Cameroon, Central African Republic, Chad, Congo, Rep., Equatorial Guinea, and Gabon.

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

CEMAC	1990	1995	2000	2007
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest qunitile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	..	..	*22.8*
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	*61*	..	..	..
Primary completion rate (% of relevant age group)	43	..	40	*50*
Secondary school enrollment (gross, %)	*21*	..	24	*23*
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	*70*	..	*76*	*75*
Women employed in the nonagricultural sector (% of nonagricultural employment)	19	..	..	..
Proportion of seats held by women in national parliament (%)	13	*8*	6	*10*
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	155	165	167	*168*
Infant mortality rate (per 1,000 live births)	95	99	100	*101*
Measles immunization (proportion of one-year olds immunized, %)	56	41	40	*52*
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*1,120*
Births attended by skilled health staff (% of total)	..	..	44	..
Contraceptive prevalence (% of women ages 15-49)	..	..	21	*18*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	5.2	..
Incidence of tuberculosis (per 100,000 people)	106	155	227	*264*
Tuberculosis cases detected under DOTS (%)	..	*16*	*41*	*81*
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	49	57	*64*
Access to improved sanitation facilities (% of population)	26	29	31	*34*
Forest area (% of total land area)	36.1	..	34.8	..
Nationally protected areas (% of total land area)	..	..	..	*11.3*
CO2 emissions (metric tons per capita)	0.4	0.3	0.2	*0.4*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	6.5	6.2	6.3	*6.4*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.3	0.5	0.6	*0.6*
Mobile phone subscribers (per 100 people)	0.0	0.0	0.9	21.2
Internet users (per 100 people)	0.0	*0.0*	0.2	*1.6*
Personal computers (per 100 people)	..	..	0.3	*0.8*







Note: Figures in italics are for years other than those specified. .. indicates data are not available. (DECDG) 10/3/08
Economic and Monetary Community Central Africa (CEMAC) includes Cameroon, Central African Republic, Chad, Congo, Rep., Equatorial Guinea, and Gabon.