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WEST AFRICAN ECONOMIC AND MONETARY UNION (WAEMU)

FINANCIAL SECTOR ASSESSMENT (FSA)

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CONTENTS

GLOSSARY

AML/CFT	Anti-Money Laundering/Combatting the Financing of Terrorism
ATM	Automatic Teller Machine
BCEAO	Central Bank of West African States (*Banque Centrale des États de l'Afrique de l'Ouest*)
BCSF-UEMOA	Bureau de Connaissance et de Suivie des Fintechs
BIC	Credit Reporting Bureau (*Bureaux d'information sur le crédit*)
BOAD	West African Development Bank (*Banque Ouest-Africaine de Développement*)
BVRM	Regional Stock Exchange (Bourse Régionale des Valeurs Mobilières)
CBU	Banking Commission of the West Africa Monetary Union (C*ommission Bancaire de l'UMOA*)
CIPRES	Regional Pension Schemes Body (Conférence Interafricaine de Prévoyance Sociale)
CM	Council of Ministers of the WAEMU
CREPMF	Regional Public Investment and Financial Markets Board (C*onseil Régional de l'épargne publique et des marchés financiers*)
CSF-UMOA	Financial Stability Committee of the WAMU (*Comité de Stabilité Financière dans l'UMOA*)
DSP	Off-site Supervision Department
ECOWAS	Economic Community of West African States
ELA	Emergency Liquidity Assistance
FGDR-UMOA	Deposit Guarantee and Resolution Fund of the WAMU (*Fonds de Garantie des Dépôts et de Résolution dans l'UMOA)*
FSAP	Financial Sector Assessment Program
GIM-UMOA	Regional Interbank Electronic Banking Group
HQLA	High-Quality Liquid Assets
IMF	International Monetary Fund
IPO	Initial Public Offering
J-CAP	Joint Capital Market Program
LCR	Liquidity Coverage Ratio
ML/TF	Money Laundering and Terrorism Financing
NPL	Nonperforming Loan
OHADA	Organization for the Harmonization of Business Law in Africa
OSD	Off-site Supervision Department
PEP	Politically Exposed Person
PGSIC	General Principles for Credit Information

SGCB	General Secretariat of the Banking Commission (*Secrétariat Général de la Commission Bancaire)*
RCCM	Registry of Businesses and Security Rights
SICA-UMOA	Automated Retail Payment Clearing House
SMEs	Small- and Medium-Sized Enterprises
SOE	State-Owned Enterprise
SVT	*Spécialistes en Valeurs du Trésor*
UMOA	*Union Monétaire Ouest Africaine*
UMOA -Titres	Securities Agency of the WAMU (in French, *UMOA-Titres)*
SSIs	Social Security Institutions
WAEMU	West African Economic and Monetary Union
WAMU	West African Monetary Union

Preface

A World Bank and IMF team conducted an evaluation under the Financial Sector Assessment Program (FSAP) from January 18 to February 2, 2022.[1] The team was led by Pierre-Laurent Chatain (World Bank) and Romain Veyrune (IMF) and included deputy mission chiefs Jean Michel Lobet (World Bank) and Silvia Iorgova (IMF). It also included team members Tulu Balkir, Antoine Bavandi, Alex Berg, Caroline Cerruti, Dorothée Delort, Chiara Teresa Maria Lunetti, Fredesvinda Fatima Montes, Graciela Miralles Murciego, Antonia Menezes Preciosa, Ou (Owen) Nie, and Tanjit Sandhu Kaur (World Bank); and Thierry Bayle, Stéphane Couderc, Romain Lafarguette, Moustapha Mbohou Mama, and Alice Mugnier (IMF). The following external experts also contributed to the evaluation: Gonçalo Coelho, Sophie Imani Poinsot, Jay Purcell, Philippe Roussel-Galle, Emma Renu Dalhuijsen, Maria Chiara Malaguti, Patrice Berge Vincent, and Jean-Marie Weck.

From the standpoint of financial sector development, the mission focused on access to financing for small- and medium-size businesses (SMEs); conditions of competition in the financial sector; payment systems; the role of social security institutions in capital market development; public bank governance; and the capacity to evaluate risks relating to climate change. From a financial stability standpoint, the mission assessed the risks and vulnerabilities of the financial sector; the quality of the financial supervisory framework, including bank supervision and regulation, and the surveillance of risks related to money laundering and terrorism financing (AML/CTF); the state of financial safety nets, crisis management, and bank resolution; and the management of systemic liquidity.

The mission met with the Central Bank of West African States (BCEAO), the General Secretariat of the WAEMU's Banking Commission (CBU), members of the CBU Supervisory Board, the Securities Agency of the WAEMU (UT), the Regional Public Investment and Financial Markets Board (CREPMF), the Regional Mortgage Refinance Fund (CRRH), the Inter-African Conference on Insurance Markets (CIMA), the Inter-African Conference on Social Security (CIPRES), the Deposit Guarantee and Resolution Fund (FGDR), and the regional Credit Reporting Bureau (BIC). The mission also met with representatives of other public sector institutions, financial institutions, industry organizations, and the private sector.

The evaluation team extends its deep gratitude to these authorities for the constructive dialogue, their outstanding cooperation, and their substantial contributions to the FSAP process, particularly in the challenging remote-work circumstances under which the mission was conducted because of the COVID-19 pandemic.

NOTES

[1] Further information on the FSAP is available at IMF, *Financial Sector Assessment Program (FSAP)* (Washington, DC: International Monetary Fund, 2022), http://www.imf.org/external/np/fsap/fssa.aspx.

EXECUTIVE SUMMARY

Financial stability

The financial sector of the West African Economic and Monetary Union (WAEMU) has undergone important structural changes since the 2008 Financial Sector Assessment Program (FSAP). The size of the financial sector has increased significantly. Regional banking groups, primarily pan-African, now account for 86 percent of banking assets and are playing a dominant role. Banks have accumulated considerable portfolios of government securities. Banks' asset quality and capitalizations have improved but need to be further enhanced. Furthermore, the banking sector has withstood the impact of COVID-19, with support from the authorities, but the fiscal space is now limited.

The regional authorities have made important improvements to enhance prudential regulations and aligned with Basel II/III standards, but their implementation is still in progress. The BCEAO has conducted ambitious reform efforts in the last five years to consolidate the prudential base and establish the conditions for strengthened supervision. The 2017 publication of four circulars on governance, risk management, internal control, and compliance—aligned with best international practices—have imposed stricter regulatory requirements on credit institutions. Substantial progress has been made on incorporating regulatory capital and liquidity risk management requirements consistent with Basel standards. Efforts in implementing these reforms should be pursued though as the banking sector remains heterogeneous in terms of solvency, risk exposures, risk management, governance, and performance.

Credit risk is amplified by asset concentration and interconnectedness. Credit risk is the most important risk faced by the financial system. Banks are exposed to risks caused by a deterioration of health, security, and/or macroeconomic conditions. Stress tests conducted based on growth-at-risk and inflation-at-risk models indicate that because of the relatively small size of banks' assets as a percentage of regional GDP and the soundness of large banks, a severe but plausible deterioration of economic growth, or a rise in inflation, on their own, would entail moderate recapitalization needs. Many smaller banks would be affected. Yet a concurrent economic growth slowdown and an inflation spike could further elevate recapitalization needs. Importantly, the concentration of bank exposure to private borrowers and sovereigns and banks' interconnectedness—through the interbank market and through commonly shared exposure—could amplify the impact of credit shocks and raise recapitalization needs, particularly in certain WAEMU member countries.

Liquidity risks are exacerbated by the slow development of the regional secondary bond market, and interest rate risks have been on the rise. Liquidity risk is aggravated by deposit concentration and the limited liquidity of the secondary market for government securities. Several banks are highly dependent on Central Bank of West African States (BCEAO) refinancing. Banks' exposure to interest rate risk has increased over the years because of the rise of the share of government securities on their balance sheets, whose maturities tend to be longer than banks' funding.

These vulnerabilities call for a well-calibrated response. Concentration and interest rate risks, including those linked to sovereign exposure, should be covered by capital surcharges under Basel Pillar 2 to account for heterogeneity in banks' risk profiles. The timely introduction of the Basel III liquidity ratios will help banks internalize liquidity risk. In the area of bank supervision, the BCEAO has carried out major reforms since 2017. The regulatory and prudential framework has been aligned with international standards and has strengthened supervision conditions, although these efforts need to be further pursued. In particular, supervisor autonomy and resources need to be strengthened to support the implementation of risk-based supervision. Supervisors need to impose monetary sanctions more consistently, publish their enforcement decisions, and refrain from repeated use of stays of proceedings. Resolution and liquidation tools should be applied promptly to resolve undercapitalized, nonviable institutions. The resources of the Deposit Guarantee and Resolution Fund (FGDR-UMOA) and the autonomy of the Resolution College of the CBU (the WAMU's Banking Commission) need to be reinforced. Banks dependent on BCEAO financing should be required to prepare funding plans. The Central Bank should adopt procedures for emergency liquidity assistance (ELA) and measures to mitigate balance sheet risks. Lastly, the supervisory program for Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) should be further reformed to fully adopt a risk-based approach and further enhance the capacity and methodology for onsite inspections.

Access to finance and financial inclusion

Financial inclusion in WAEMU has improved but remains below the Sub-Saharan average. Some 43 percent of the adult population has access to a transaction account[2]. This is an improvement compared to the 8 percent of a decade ago. Despite this improvement and the development of a regional financial inclusion strategy in 2017, the performance is still below the Sub-Saharan African average of 55 percent. The largest improvements have taken place in Benin, Senegal and Togo. This is the result of comprehensive efforts made by BCEAO to develop nonbank financial players, including microfinance institutions, mobile money operators, and leasing and factoring companies. Since the mobile-money reform of 2015, the number of electronic transactions has consistently increased over the years, with 33 percent of the adult population now using digital financial services.

Despite the existence of a profitable banking sector, the financial sector does not adequately serve WAEMU's population. Access to financial services remains among the lowest in the world and is a key constraint on private sector development. Domestic credit to the private sector in the region represents 26 percent of the region's GDP, and only 24.4 percent of corporates in the region have a loan or a line of credit. Agricultural loans (primarily seasonal) are limited, at only 2 percent of private sector loans, despite the importance of agricultural production in some member countries, particularly Burkina Faso (cotton) and Côte d'Ivoire (cocoa). Banks continue to follow the highly conservative strategy of lending mostly to large businesses and government—for example, loans to state-owned enterprises (SOEs) and purchases of government securities—to the detriment of SMEs and farmers, who remain underserved.

The limited use of formal financing is attributable to a conjunction of factors. Debt enforcement procedures in WAEMU's member countries are slow, encouraging banks to continue avoiding supporting

[2] 2021 Findex.

riskier segments. The length and costs of debt enforcement procedures are obstacles to debt recovery. In addition, market illiquidity poses an obstacle to the effectiveness and expeditiousness of public auctions and to banks' ability to execute guarantees. The credit reporting system has improved significantly with the creation of a regional Credit Reporting Bureau (BIC). However, problems still exist in terms of coverage (currently only 16,7 percent of the adult population), the identification of financial system users (lack of proper national identification systems), and loose conditions of consent by natural and legal persons to information sharing with the BIC. The supervisory framework for the BIC is also not in line with the General Principles for Credit Information Systems (PGSIC).

The strengthening of the regional payment system has contributed to the rise of electronic payments, but digitalization has potential for further development. The BCEAO has developed a solid regulatory framework for the issuance of electronic money, which has enabled the growth of accounts and transactions, allowing the region to catch up to the Sub-Saharan average. Digital payments (mobile money[3] and credit/debit cards) have seen increasingly widespread adoption at retail shops in Senegal, Mali, and Burkina. In Côte d'Ivoire, a majority of merchants are now accepting mobile payments. Furthermore, there are 40 e-money initiatives including 13 e-money licenses awarded to the private sector and 27 partnerships between banks and telecommunication operators or technical providers. This clearly reveals the Central bank's vision for a competitive and diverse market. However, the digitization of payments is hindered by a lack of regional interoperability, the unavailability of instant payments, and the continued predominance of cash (only large businesses accept electronic payments). Other limitations include the high transactional cost of services, lack of digital skills, and poor business models.

A dynamic financial technology (fintech) ecosystem is emerging in some countries in the region, but it does not yet have a proper legal framework in place. About 180 financial technology companies are operating in the region, offering different types of services. However, the development of a robust legal and regulatory framework has not kept pace with these technological developments. The result is that fintechs operate largely outside the regulatory and oversight perimeter, and with limited access to a properly designed financial infrastructure. The lack of a regulatory framework creates uncertainties that complicate the growth of new business models, while also posing potential risks to consumers. Things are moving in the right direction, nonetheless. The BCEAO has set up a "WAEMU Innovation Office (BCSF-UEMOA) to promote dialogue between the BCEAO and the fintechs. Also, the Financial Stability Committee, which brings together all the regulators of the financial sector, currently serves as a platform for exchange and consultation between regulators on the issue of fintech.

To address these challenges and support inclusive growth, authorities are encouraged to adopt further reforms. The following three strategies, in particular, would improve the access of SMEs and households to finance: (i) more efficient debt recovery procedures; (ii) increased competition among financial intermediaries; and (iii) further development of the credit reporting system to enhance transparency on debtor creditworthiness. The region's payment infrastructures have now been set up, but the BCEAO needs to update and expand the regulatory framework governing payments to take account of

[3] Mobile money is driving growth in account ownership, particularly in Sub-Saharan Africa, where 33 percent of adults have a mobile money account (source 2021 Findex).

the rapid changes in the payments market, in particular, the entry of numerous new fintech firms. Authorities are also encouraged to ensure complete interoperability and promote instant payment services. Open banking needs to be explored as a mean to promote financial inclusion. On the other hand, public banks should refocus their business models to serve currently underserved populations such as SMEs, and their governance should be enhanced to boost their financial soundness and contribution to economic growth.

Capital market development and the role of social security institutions

Despite the sustained efforts of WAEMU authorities, regional financial markets are still shallow and insufficiently liquid. There are only 46 listed companies—the majority of them based in Côte d'Ivoire—and the majority of listed securities on the regional exchange are government securities. The largest group of listed companies remain banks, followed by SOEs, and then privatized companies. IPOs remain sporadic, with only 9 since 2012. The regional exchange (Bourse Régionale des Valeures Mobilières [BRVM]) has undertaken several initiatives to boost the number of listed companies at its exchange but the results have yet to materialize. The lack of listed companies and available securities for trading is a cause of high volatility. Additionally, the sovereign bond market remains fragmented and illiquid. The authorities continue to carry out important actions with a view to improving the attractiveness of the regional market. As an example, a memorandum of understanding was signed between the regional market authorities, CREPMF, and the World Bank Group under the Joint Capital Market Program (J-CAP). This is a fundamental step toward the development of the regional market, including in the areas of governance and the capacities of regional financial market participants, the market's attractiveness to institutional investors, and cooperation among regulators, trade associations and international institutions.

The development of capital markets would benefit from a larger contribution from Social Security Institutions (SSIs) (*Organismes de Prévoyance Sociale*), which would require reviewing their operational and supervisory frameworks. SSIs enjoy significant advantages in performing their social protection mission. However, deficiencies in their governance framework are sources of vulnerabilities. The regulatory frameworks governing SSIs' investments and risk management framework is underdeveloped and, in the latter case, presently remains only at the national level. The excessive concentration of SSI reserves in the banking and public sectors is also a source of elevated sovereign risk exposure and limits SSIs' contribution to long-term finance. Finally, and above all, SSIs are subject to supervision by their respective member states' ministries of social security and/or finance. The Inter-African Conference on Social Security (CIPRES), the Commission that controls SSIs at the regional level, plays no real role as supervisor. The Commission lacks sufficient legal authority and enforcement power to effectively fulfill its mission. The uniqueness of the West African regional model of social welfare, and its intrinsic flaws, should prompt regional authorities to take a hard look at the situation and make a clear strategic choice: either (i) set up a real regional authority for the effective regulation and supervision of SSIs, with all the necessary powers and resources this will require, through the creation of an authority or a council such as exists for the regional capital markets regulator; or else (ii) maintain the current status quo, which would be unsatisfactory.

Climate Risks and Green Finance

The regional authorities should adopt a green strategy for the financial system. The recognition of climate risks and the development of green finance are still at an early stage. The WAEMU region is highly exposed to climate risks. While medium and long-term climate events present a significant risk of disruption in entire sectors of the economy, agriculture appears particularly vulnerable. In this context, regional authorities are encouraged to adopt a green strategy for the financial system. The strategy should place priority on establishing a dedicated governance structure, mobilizing adequate resources, and developing capacity for evaluating the magnitude of climate risks and their impact on the financial system. In the medium term, supervisors should set prudential expectations for the inclusion of climate risk in financial institutions' risk management and disclosure frameworks; adopt a taxonomy for green assets; and encourage financial institutions to commit to region-wide and global climate goals. The issuance of green sovereign debt instruments would stimulate the green finance market.

In conclusion, among the many desirable actions to respond to current issues discussed above, four major areas of reform appear to be urgently needed. First, on the banking sector front, the use of capital surcharge requirements is warranted to address concentration and interest rate risks. A timely introduction of the Basel III liquidity requirements would help banks internalize liquidity risks. In parallel, enforcement should be strengthened, supervisory resources increased, and the new bank resolution framework applied promptly to address already undercapitalized, nonviable institutions. The regulator should also remain vigilant and ensure that banks abide by robust corporate governance practices, in particular state-owned banks. In the area of financial inclusion, authorities are encouraged to foster access to finance, particularly for SMEs and households, through a more efficient debt recovery and credit reporting systems. The achievement of the regional interoperability for promoting digitization of payments is also of paramount importance. Third, efforts should be pursued to develop further the regional capital markets, notably by integrating the two sovereign bonds platforms and expanding capital markets even further through the development of money markets; enlarging the investors base through a more active role of pension funds (Social Security Institutions) is also advisable. Lastly, on climate risks, the BCEAO may wish to consider developing a green strategy for the financial sector with immediate attention to have the proper governance structure in place and adequate resources.

Table 1. WAEMU: Recommendations of the Financial Sector Assessment Program

Recommendations	Counterparty	Priority
Banking Sector Supervision and Regulation		
Amend the CBU's governing documents to effectuate the independence of its Supervisory Board from member states and require state representatives to serve in a non-voting capacity or establish the selection of commissioners based on their professional qualifications.	BCEAO/ Council of Ministers (CM)	ST

Continue strengthening the number and capacity of staff at the General Secretariat of the Banking Commission (SGCB) of the WAEMU that are assigned to supervisory functions	BCEAO	MT
Impose capital surcharges for concentration risk and interest rate risk (Pillar 2).	CBU	ST
Make more consistent use of monetary sanctions, publish sanctions and censures, and avoid repeated stays of proceedings.	CBU	ST
Strengthen AML/CFT supervision by fully adopting a risk-based approach and enhancing the capacity and methodology for onsite supervision.	CBU	ST
Macroprudential Framework and Tools		
Designate the BCEAO as the "macroprudential authority" responsible, among other things, for activating the countercyclical buffer.	BCEAO/ CSF-UMOA	ST
Systemic Liquidity		
Introduce (i) funding plans to manage certain banks' excessive dependence on BCEAO funding; (ii) haircuts and concentration limits for eligible assets adapted to the underlying risks; and (iii) a framework for emergency liquidity assistance (ELA).	BCEAO	ST
Resolution and Crisis Management		
Liquidate or resolve undercapitalized, nonviable credit institutions on a timely basis.	CBU	ST
Finalize banks' resolution plans in accordance with best practices.	CBU	ST
Strengthen (i) the independence of the Resolution Board vis-à-vis the Supervisory Board and the member states; and (ii) the independence of the Deposit Guarantee and Resolution Fund (FGDR), particularly relative to active members of the banking industry.	CM/CBU/FGDR	MT
Access to Financing		
Regulatory Framework for Credit		
Reform the Organization for the Harmonization of Business Law in Africa (OHADA) Uniform Act Organizing Simplified Recovery Procedures and Enforcement Measures (OUA-SP) to streamline the enforcement process and eliminate the difficulties in liquidating assets in the context of auctions. In particular, the reform should adopt actions to limit delay tactics and expedite legal proceedings related to the seizure of real estate.	OHADA Secretariat	LT
Operationalize and digitize the movable collateral registries	OHADA/ Ministries and	ST

	authorities concerned	
Provide capacity building opportunities in the area of business law to members of the judiciary	OHADA/ Ministries and authorities concerned	ST
Credit Infrastructure		
Amend Uniform Law 14/2014 to remove the consent requirement for sharing data from regulated entities with the credit reporting bureau (BIC), increase sources of information from alternative data providers and improve the process for borrower identification.	BCEAO/national identification systems	MT
Competition		
Strengthen the regulatory framework governing competition in the financial sector by establishing a systematic process for control of merger operations, and by ensuring that WAEMU member states effectively apply the rules on state assistance.	WAEMU Competition Commission	MT
Conclude a memorandum of understanding between WAEMU's Competition Commission and the BCEAO; strengthen BCEAO's cooperation with national sectoral regulators.	BCEAO/WAEMU Competition Commission	ST
Payment Systems and Instruments		
Revise Regulation No. 15/2002 to cover all components of WAEMU's payment system.	BCEAO	ST
Develop the legislation on payments and financial innovation that explicitly grants the BCEAO authority to supervise all components of the payment system, as mentioned in the draft banking law.	BCEAO	MT
Finalize the interoperability and implementation of instant payments.	BCEAO	ST
Conduct an impact analysis and consultations on electronic money issuance by the national treasuries.	BCEAO/Treasuries	ST
Regulate and supervise fintech activities.	BCEAO/Ministries and authorities concerned	MT
Financial Inclusion		
Issue the new microfinance law to improve regulation, supervision, risk management and governance of micro-finance institutions	BCEAO/relevant Ministries	ST
Capital Markets and Social Security Institutions		
Amend the treaty establishing the CIPRES with the view to (i) adopting regulations by simple majority, (ii) harmonizing laws	CIPRES	LT

applicable to SSIs by regulation, and (iii) granting sanction powers to the CIPRES.		
Revise Recommendation No. 22/CM/CIPRES on the legal and institutional frameworks of social security institutions (SSIs) with the view to (i) establishing criteria for the composition of an SSI's board of directors, (ii) revising the criteria for appointing executive directors of SSI, and (iii) granting the Commission authority to accredit these appointments.	CIPRES	ST
Address markets fragmentation by integrating the two sovereign bonds platforms	BCEAO/CREPMF	MT
Expand capital markets through the development of money markets	BCEAO	MT
Address the heterogeneous tax treatment of financial market products	CREPMF/Ministries of Finance	ST
Conduct an in-depth operational and governance assessment of the CREPMF	CREPMF	ST
Climate Risk		
Adopt a strategy for managing climate risks, including raising supervisors' and financial institutions' awareness of local, regionwide and global climate-related issues.	BCEAO/CBU	ST
Define the prudential expectations for financial institutions' integration of climate and environmental risks into risk management systems and disclosures.	BCEAO/CBU	MT

ST = Short Term (1 to 2 years); MT = Medium Term (3 to 5 years); LT (5 to 8 years).

MACROFINANCIAL SETTING

A. Macroeconomic Developments

1. **WAEMU has experienced a decade of sustained economic growth.** The growth, averaging 6.4 percent during 2012–2019, was stimulated by private investment, spurred by public spending and credit growth (see figure 1 and table 1). External demand remains an important growth driver. Economic diversification has reduced regional economies' dependence on raw material exports and, hence, their exposure to terms-of-trade shocks.

2. **Regional authorities took strong measures to mitigate the negative impact on growth of the COVID-19 pandemic** (see table 2). Growth contracted to 2 percent in 2020 but remained above forecasts. Public deficits increased by 3.5 percent of GDP, supporting domestic demand but reversing the process of fiscal consolidation. The return to regional convergence was revised to 2024, a year later than initially planned. In addition, the BCEAO reduced its policy rate by 50 basis points to ease monetary policy. In response to increased demand for precautionary liquidity, the BCEAO granted the full amount of banks' requests for short-term refinancing and expanded the pool of eligible collateral. It also allowed banks to reschedule 3.1 percent of private sector loans. This rescheduling of bank loans provided financial respite to the sectors hardest hit by the crisis. It was suspended at end-2020, and at end-June 2021 22 percent of the rescheduled loans were classified as non-performing. The rate of portfolio deterioration at end-November 2021, including on non-rescheduled loans, did not indicate a significant negative impact on asset quality.

3. **The economic outlook appears favorable but is subject to significant risks that could be exacerbated by the current complex global environment.** Leading economic indicators predict a rebound of GDP growth to 5.7 percent in 2022 IMF projections show a return to pre-COVID growth levels in 2022. Bank credit has also rebounded, growing by nearly 11 percent year-on-year at end-October 2021. However, growth could be hampered by a combination of one or more of the following potential developments: a deterioration of the security situation, as already seen in Mali and Burkina Faso; a resurgence of the COVID-19 pandemic; narrower fiscal space that could require an accelerated adjustment; or major external shocks.[4] A rise in commodity prices and supply shocks in the global markets could also weigh on regional inflation, which has already exceeded the BCEAO's inflation target band, and on international reserves, leading in turn to higher interest rates.

B. Financial Sector Structure

4. **The WAEMU financial sector has grown considerably since the last FSAP in 2008 but is still dominated by the banking sector** (see figure 2). It has doubled in size since 2008, with total assets accounting for 69 percent of regional GDP in 2020, compared to 35 percent of GDP in 2008. Banks remain the principal actors in the financial system (accounting for 74 percent of financial sector

[4] All the WAEMU states are at either medium or high risk of debt distress, according to IMF debt sustainability analyses, and have sovereign ratings below BB.

assets) and operate under the traditional business model of deposit taking and the provision of credit, mostly short- and medium-term credit to nonfinancial corporates. Banking activity is mostly concentrated in Côte d'Ivoire and Senegal (more than half of regional assets). Bank penetration varies considerably by country—as high as 74 percent of GDP in Togo, and as low as 25 percent in Niger.

5. **Credit growth has been steady—a trend that will need to continue to ensure adequate support for economic growth.** Between 2010 and 2019, the stock of credit to the private sector increased by an annual average of 12 percent but it still represents only 25 percent of GDP for the region, with significant disparities across member countries. Agricultural loans (primarily seasonal) are limited at only 2 percent of private sector loans, despite the importance of agricultural production in some member countries, particularly, Burkina Faso (cotton) and Cote d'Ivoire (cocoa). The availability of financial data has improved with the development of a regional credit reporting bureau and a corporate financial analysis unit (*centrale des bilans*), but still does not fully support banks' ability to diversify their credit portfolios.

6. **A number of important changes have redefined the financial sector since the 2008 FSAP.** They include

- *The development of banking groups:* These groups, primarily pan-African and regional groups, now account for 86 percent of banking assets.
- *A rise in sovereign risk exposure:* The share of sovereign debt reached 35 percent of banks' total assets at end-2021 (up from 7 percent in 2004). WAEMU's member governments have overall become more dependent on the region's banks to finance public spending, with banks' share of public debt exceeding the average for emerging markets and low-income countries around the world.
- *The growth of management and intermediation companies (Sociétés de Gestion et d'Intermédiation [SGIs]):* SGIs manage 15 percent of financial sector assets. Their growth has been spurred by their regulatory monopoly on stock market transactions, including their exclusive access to government securities issued via syndication. The SGIs' own exposure is relatively small, with assets consisting mostly of third-party accounts. The assets of other nonbank operators are negligible.

7. **The non-bank financial sector remains small.** The insurance sector and pension funds play a limited role in financial markets which in turn results in limited access to long term finance. The insurance sector plays a marginal role in the WAEMU's financial sector with premiums representing only 2.3% of the GDP. The most developed markets are in Senegal, Cote d'Ivoire and Togo. The sector is very fragmented with more than 127 insurance companies operating in the region. In June 2019 the *Conférence Interafricaine des Marchés des Assurances* (CIMA), the regional insurance regulator (which also includes countries outside the WAEMU zone),[5] adopted a reform mandating the increase of the minimum capital requirement to 3 billion CFA (approx. 5.5 million USD). This reform is expected to encourage consolidation of the sector. Pension funds in the region represent 2,309 billion CFA (approx.

[5] It also includes the CEMAC member countries.

4.25 billion USD). The investment portfolio of pension funds in WAEMU is not diversified and mostly concentrated on government and banking sector securities. The slow development of both sectors has also delayed the development of the regional capital markets.

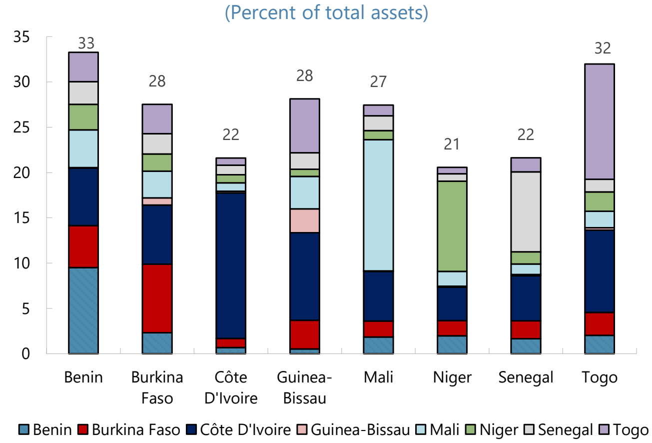
8. The microfinance sector continues to play a key role in the economy, but credit risks are on the rise and warrant close attention. About 523 microfinance institutions (MFI) were operating in the region during the first quarter of 2021. These decentralized financial systems served nearly 16 million customers and continue to play an important role for poverty reduction and social inclusiveness. Yet, the sector is relatively small, representing about 7 percent of the banking sector in terms of deposits and loans and 2.8% of the regional GDP. The situation of MFIs has deteriorated substantially; according to the BCEAO, the stock of non-performing loans has soared in 2021 as a direct effect of the pandemic and a recent IMF study predicts further deterioration. While several fragile entities have recently undergone restructuring or termination, the sector still needs to be further strengthened. Problems of governance, limited supervision, deterioration of asset quality and obsolescence of the current regulatory regime require urgent reforms. In that regard, the authorities are encouraged to accelerate the finalization of the new microfinance draft law that has been in the making for many years.

C. Vulnerabilities and Risks

9. Credit risk is the most important risk faced by the financial system. Nonperforming loans (NPLs) are high, even though they have declined to 11.2 percent of total loans as of November 2021, from 20 percent at end-2006. This improvement in asset quality, however, is more modest than might have been expected after a long period of strong GDP and credit growth. The absence of effective mechanisms for NPL recovery, and the uneven enforcement of regulatory write-off rules, contribute to persistent asset quality issues. There are also considerable disparities across countries and institutions, with NPLs in some member countries as high as 20 percent of loans.

10. The high concentration of banks' lending and sovereign exposure exacerbates credit risks. In their lending activities, banks are exposed to a limited set of private counterparties. For more than one-third of reporting banks, their single-largest exposure exceeds the limit of 55 percent of regulatory capital (the current WAEMU standard), and the 25 percent large exposure limit under the Basel standard for two thirds of the banks (figure 3). Sovereign concentration risk is even more pronounced, especially in Benin and Togo. Banks' securities portfolios are partially diversified due to holdings of various member states' debt, but the diversification effects are

Structure of Banks' Public Securities Portfolio
(Percent of total assets)



Source: BCEAO and IMF staff calculations.

limited because of the bias toward holding own-country and Côte d'Ivoire debt securities, and the possible correlation of member states' vulnerabilities.

11. Contagion risks in the WAEMU are high, buoyed by the presence of multiple channels of interconnectedness (figure 4). These include (i) mostly unsecured direct interbank exposure; and (ii) considerable commonly shared exposure to private and sovereign borrowers, including cross-border investments in other member states' debt securities (for example, Côte d'Ivoire).

12. The rise in banks' sovereign exposure, and greater reliance on BCEAO short-term funding, have contributed to a rise in interest rate risk. Historically, the prevalence of short-term private credit claims in banks' portfolios curbed this risk because maturity mismatches were minimal. The sharp rise in government debt holdings, and the expanded use of BCEAO short-term funding, have raised banks' asset-liability mismatches and the risk of a contraction in their interest rate margins, should interest rates rise.

13. Banks' capital buffers are limited and uneven across banks (figure 5). The system-wide capital adequacy ratio has risen, reaching 12.4 percent at end-June 2021, up from 10.5 percent at end-2018. This reflects an increase in the regulatory capital requirement in the context of the transition toward Basel II/III. Yet banks' capital positions are in reality weaker than they look. Full provisioning of NPLs would mostly absorb existing Tier 1 capital buffers, diminishing banks' capacity to cope with risk amplifiers (for example, concentration and contagion) and emerging risks (for example, interest rate risk).[6] Disparities among institutions also persist, with 18 banks (10.2 percent of banks' assets) not complying with the solvency norms at end-June 2021.

14. Liquidity risks are exacerbated by the underdevelopment of regional bond markets (figure 6). Banks' funding, largely based on customer deposits, has been stable. Yet the heavy skew of banks' funding base toward large deposits—the five largest depositors on average account for 25 percent of deposits—amplifies the impact of liquidity shocks. The illiquidity of the secondary markets for government securities hampers banks' ability to mitigate such shocks. It also stands in the way of developing the repo market, which offers a more robust form of interbank funding than the prevalent unsecured transactions. Finally, banks do not actively use debt issuances to curtail maturity mismatches and interest rate risks.

15. The quality of banks' internal risk management systems is heterogeneous. Only 35 percent of banks systematically require approval by their risk management department before making a loan.[7] Banks also do not uniformly develop formal audit plans or risk maps. Credit risks are monitored via analysis of borrowers' financial statements and internal ratings, but credit risk analysis tools are rudimentary and suffer from a lack of borrower data. Few banks use external ratings and credit bureaus.

[6] Provisions at end-2020 stood at 65 percent of NPLs—a level that, given the inefficiencies in the legal system, may be insufficient to compensate for the high uncertainty of banks' debt recoveries.

[7] Results are based on a business model survey conducted in the context of the FSAP responded by more than 120 banks operating in the region.

Only 50 of 152 banks report conducting regular solvency and liquidity stress tests, and those that are undertaken are often limited in terms of scenarios and coverage.

16. Climate risk in the region is, on paper, recognized as important but is inadequately monitored. The WAEMU countries, particularly those in the Sahel region, are highly exposed to the effects of climate change. The agriculture sector—particularly the production of cotton—is already experiencing its adverse impact. Banks' exposure to the sector is limited and generally covered by government guarantees. No more than a third of banks consider themselves capable of identifying assets that are directly exposed to climate risks.

D. Stress Testing and Interconnectedness

17. Solvency test results indicate moderate system-wide recapitalization needs but vulnerabilities for many small banks. In the adverse scenario,[8] banks' capital adequacy ratios could decline to 5.4 percent. Recapitalization needs are estimated to be limited, at up to 1.1 percent of regional GDP, reflecting the small size of banks' risk-weighted assets and the soundness of larger banks.[9] This range is largely similar across the region (in terms of national GDP), except for Guinea Bissau and Togo where higher vulnerabilities and the larger size of the banking sector (in the case of Togo) put recapitalization needs at close to 3 percent of national GDP. Regionwide, the vulnerabilities center on small banks, 35 of which see their capital positions fall below the minimum requirement in the adverse scenario, joining another 20 banks that are already undercapitalized.

18. Concentration risks pose an additional challenge for banks in the region, accounting for significant recapitalization needs in some countries. Regionwide, most banks' capital buffers are found to be inadequate to cover the loss of even their single largest exposure. Recapitalization needs resulting from losses on the largest, and up to the ten largest, exposures are at 1 to 3 percent of regional GDP (figure 3). At the country level, these needs range from 1.5 percent of national GDP for Côte d'Ivoire—the largest and most diversified economy in the Union—to 7 percent for Togo.

19. Many banks are exposed to contagion risks, but recapitalization needs should be modest. The failure of WAEMU's largest banking group would lead to the failure of 23 other banks. Yet the recapitalization needs from a failure of all interbank positions would be small, at just 0.3 percent of regional GDP. At the country level, these needs—at less than 0.2 percent of national GDP—are also small, except for Burkina Faso (close to 1 percent) and, to a lesser extent, Togo (figure 7). Recapitalization needs rise to about 0.8 percent of regional GDP in the case of the concomitant default of banks' 10 largest common private exposures, *or* defaults on debt payments due in 2021 and 2022 by the largest common sovereign exposure.

[8] The adverse scenario presumes an accelerated fiscal adjustment; a regionwide resurgence of the COVID-19 pandemic; a deterioration in the region's security situation; an external shock due to surging commodity prices; and a climate shock that captures temperature variation, frequency of catastrophic events, and agricultural production.

[9] The recapitalization needs reflect the capital required to bring banks' regulatory capital above the minimum 8.25 percent capital adequacy requirement whenever the losses in the adverse scenario exceed existing capital buffers.

20. Interest rate stress tests suggest that inflation and, indirectly, higher interest rates have an impact on banks' solvency. The test results suggest that banks' return on assets would decline by 2.5 percentage points. Capital adequacy ratios would decline to 3.6 percent, with recapitalization needs reaching 1.5 percent of regional GDP. Higher inflation could exacerbate the impact of a growth slowdown on banks' solvency (as evaluated in the solvency test) and therefore further increase recapitalization costs.

21. Liquidity test results show that banks' liquidity gaps under stress are moderate, but the capacity to withstand liquidity pressures is heterogeneous. In the event of a severe stress, most banks (58 out of 91) would be unable to withstand the cash outflows. Yet the system-wide liquidity gap, even under the most adverse scenario, appears manageable—at 2.1 percent of GDP. The inability to offset liquidity risks is most pronounced among small banks and among the banks of certain member countries.

FINANCIAL SECTOR OVERSIGHT

A. System-level oversight

Institutional Architecture

22. WAEMU's institutional framework for financial stability and the legal mechanisms underpinning its functioning have seen substantial progress since the 2008 FSAP. Institutional reforms have clarified the mandates of the BCEAO and the CBU and strengthened the CBU's legal autonomy and enforcement powers. (See table 3 on the implementation of the 2008 FSAP recommendations.) In addition to the objective of preserving price stability, the BCEAO has explicitly been charged with the core task of ensuring financial stability. The law on the banking regulatory framework has established an overarching framework for the supervision of banks' activities, which has been made more proactive and risk based with the gradual implementation of the Basel II/III framework since 2016. A macroprudential policy framework, a bank resolution regime, and a deposit guarantee fund—whose mandate was extended to bank resolution funding—have been introduced.

23. However, the CBU's independence from member states needs to be strengthened. The principle of independence, which prohibits CBU members from receiving instructions from external entities, including member states, should be explicitly stated in the CBU's governing documents (specifically, the Annex to the CBU's governing Convention). The governing documents should also stipulate that those commissioners who serve on the Supervisory Board because of their status or position in a WAEMU member state's administration (currently, 8 of the 16 members) should do so in a non-voting capacity. As an alternative, the CBU's composition could be amended to increase the representation of CM-nominated commissioners based on professional qualifications. Finally, maintaining the CM's appellate jurisdiction over CBU decisions raises concerns about institutional independence. As per good practice, such decisions should be appealed only before the WAEMU's Court of Justice, which also has jurisdiction over these matters.

Macroprudential policies

24. **Since the 2008 FSAP, the BCEAO has implemented key elements of WAEMU's macroprudential policy framework.** The Financial Stability Committee of the WAEMU (CSF-UMOA), created in 2010, includes all regional financial sector regulators and is charged with conducting regular assessments of systemic risks, recommending macroprudential measures, and ensuring coordination across the various authorities responsible for financial sector oversight.

25. **Introduced in 2010, the macroprudential policy framework applicable to banks does include appropriate instruments.** These instruments include capital surcharges (for example, a countercyclical buffer, a conservation buffer, and a systemic buffer) and measures to contain credit growth applied to loans secured by real estate collateral (for example, ceilings on loan-to-value and debt-service coverage ratios). Among these instruments, only the countercyclical buffer has never been activated, reflecting limited vulnerabilities amid the cyclical slowdown in credit growth.

26. **The framework for monitoring systemic risks is well defined but would benefit from closing critical data gaps and monitoring sectoral vulnerabilities.** The BCEAO follows a wide range of indicators and regularly conducts macroprudential stress tests to assess systemic vulnerabilities. Yet the analyses of vulnerabilities in the nonfinancial corporate and household sectors are limited and would benefit from more extensive data collection on indebtedness and repayment capacity. The BCEAO could capitalize on the ongoing reforms of the financial reporting centers to establish a continuous data-collection mechanism.

27. **Several aspects of the institutional framework should be revised to enhance the effectiveness of macroprudential policymaking.** The BCEAO should be designated as the macroprudential authority responsible for, among other things, activating the countercyclical buffer, in line with its financial stability mandate and in view of the predominant role of banks in the financial sector, while allowing national authorities to raise legitimate concerns in the context of the CSF-UMOA. The CSF-UMOA should be granted powers to compel macroprudential decision-making entities to adhere to its "comply or explain" requirements for implementing its recommendations, with rigorous time limits for regulators to either implement the proposed measures or explain their failure to do so. Further, the capacity of the BCEAO should be strengthened to analyze and monitor sectoral vulnerabilities and to cover data collection gaps. Lastly, in order to support a more transparent macroprudential policy, the CSF-UMOA should communicate regularly to the public the rationale and benefits of its systemic risk analyses and policy decisions.

B. Bank supervision and regulation

28. **In the area of bank regulation, the BCEAO has conducted ambitious reform efforts in the last five years.** The 2017 publication of four circulars—on governance, risk management, internal

control, and compliance, aligned with best international practices—have imposed stricter regulatory requirements on credit institutions. Substantial progress has been made to incorporate regulatory capital requirements consistent with Basel standards. The regulatory framework on liquidity risk management standards, published in 2017, appears complete and consistent with the Basel Core Principles. This regulatory effort has consolidated the prudential base and established the conditions for strengthened supervision.

29. The Off-Site Supervision Department (OSD) would benefit from developing its analysis of banking sector risks. Cross-cutting analyses should be conducted more frequently, and the systemic risk map should be enriched. In particular, the expertise of the General Secretariat of the Banking Commission (SGCB) in stress tests should be strengthened to capture and satisfactorily supervise risk trends and the accumulation of risks.

30. The credit institution rating methodology used by the OSD needs to be updated. First, market risk and the overall interest rate risk should be incorporated in the rating system. Second, the criteria employed in assessing the different risk factors should be weighted according to their relative importance. In particular, concentration risk—considered one of the sector's principal vulnerabilities—needs to receive a higher rating. Finally, the robustness and performance of the rating system should be tested and evaluated on a regular basis.

31. Further efforts should be made to increase the resources provided to the CBU and its secretariat. The SGCB teams are experienced and qualified, but their skills and competencies should be further strengthened in light of the banking sector's transformations, which include the increased presence of complex systemic and cross-border groups and new risks. Continued IT investments will be needed to optimize and automate the tools employed by the OSD.

32. The preventive actions of the supervisory authority should be accompanied by more vigorous deterrent measures. The CBU has a wide range of combinable sanctions available to it. Yet it has been overly tolerant toward entities that continually violate prudential regulations (in particular, the minimum capital and solvency regulations) for extended periods of time. In response to these situations, the CBU often merely issues written warnings, which has a limited impact especially since the warnings are not published. In other cases, it uses stays of proceedings, at times repeatedly, despite the persistence of serious violations. In the interest of enhancing accountability, improving compliance, strengthening its own stature, voice and authority, and gradually building a regionwide culture of the rule of law, warnings and sanctions should be made public and monetary sanctions should be applied more frequently. Repeated stays of proceedings should also be avoided if possible. Finally, nonviable credit institutions should undergo liquidation or resolution.

C. Supervision of AML/CFT

33. Despite important reforms to enhance the supervisory framework for anti-money laundering/combating the financing of terrorism (AML/CFT), significant weaknesses persist. The CBU has introduced important reforms to its AML/CFT supervisory program following the adoption of a new Uniform Law in 2015 and the issuance of implementing regulations in 2017. These include the introduction of a new overall supervisory risk assessment model that assigns risk ratings to each bank, the administration of an AML/CFT-specific bank questionnaire, and the issuance of updated onsite inspection checklists. Significant weaknesses nevertheless persist, including these: (i) the offsite supervision program for AML-CFT is underdeveloped and not fully risk-based; (ii) the AML/CFT-related inputs to the risk assessment model are unduly limited; (iii) the AML/CFT onsite inspection program requires methodological improvements in certain key areas, including to distinguish between lower- and higher-risk, domestic, politically exposed persons (PEPs); and (iv) the CBU does not cooperate effectively with key partners in and outside the region.

34. The authorities should undertake further steps to fully implement the AML/CFT supervisory program based on a risk-based approach, and enhance supervisory capacity. Such steps include (i) expanding the role of offsite supervision and moving to a risk-based model; (ii) requiring banks to submit, at least annually, basic clientele statistics to serve as additional ML/TF risk indicators, including on the number of foreign customers and high-risk domestic PEPs, and residents of higher-risk regions or countries; (iii) strengthening the onsite inspection program by enhancing the methodology with respect to PEPs, suspicious transaction reporting, and targeted financial sanctions; (iv) improving domestic and international cooperation by eliminating obstacles to information exchange between the CBU and national financial intelligence units, and making better use of existing powers and tools for information exchange with foreign counterparts; and (v) considering the establishment of an internal pool of AML/CFT expertise to further develop AML/CFT supervisory capacity.

CRISIS PREPAREDNESS AND FINANCIAL SAFETY NETS

Crisis Management and Bank Resolution

35. A bank resolution framework has been established but is not yet tested. The bank resolution framework was introduced in 2015 but it has not yet been put into practice despite the presence of numerous banks of potential systemic importance that have been in serious violation of prudential regulations, or have been under provisional administration for several years, without any prospect of a return to viability within the foreseeable future. Two factors have contributed to this preference for regulatory over-tolerance: (i) the inadequacy of resources of the deposit guarantee fund (the principal resolution funding tool); and (ii) the lack of decision-making independence for the actors in the financial safety net.

36. The most important priority for the Resolution Board is to finalize institutions' resolution plans in accordance with best practices. Despite its introduction in 2015 and the adoption of its underlying legal framework in 2017, the bank resolution regime is not yet fully operational, in no small part due to the lack of approved resolution plans. The publication of the regulatory texts in 2020 has permitted banking institutions to begin preparing their preventive recovery plans. The CBU's review of these plans should enable it to prepare the initial resolution plans for systemic institutions and financial corporations and approve them prior to end-2022. This scheduling constraint, and the need for cross-border dialogue, require the mobilization of adequate human resources at the CBU.

37. The decision-making independence of the actors in the financial safety net should be strengthened. This relates to (i) the independence of the CBU Resolution College vis-à-vis the Supervisory College and national authorities; and (ii) the independence of the FGDR, in particular with respect to active representatives of the banking industry. In regards to the Supervisory College, the review of appeals against decisions of the Resolution College should be reserved exclusively for WAEMU's Court of Justice, which is the competent institution to determine their legality.

38. The funding resources available for bank resolution should be strengthened. The resources of systemic institutions appear inadequate for resolution via bail-in. This raises the need for launching a program to strengthen their loss-absorption capacity in the event of resolution. The FGDR's available reserves are still insufficient to contribute to resolution funding without compromising its capacity to guarantee deposits in the event of liquidation, which is its principal mandate. Accordingly, an ambitious strategy is needed to accelerate the FGDR's attainment of the target ratio for coverage of eligible deposits with available reserves. In addition, a recourse mechanism should be established to enable the FGDR to tap member-state resources for resolution funding, or reimbursement of insured depositors in the case of liquidation.

Systemic Liquidity

39. The secondary market for government securities should be deepened to reduce banks' liquidity risk. In this context, it is important to (i) include the need to develop the secondary market as an objective in member states' medium-term debt strategies; (ii) develop an institutional investor base to foster greater and more stable demand for securities; (iii) address the market segmentation associated with the syndication process (in particular, unify the legal framework); (iv) review the rights and obligations of primary dealers, notably their role as market makers; and (v) strengthen the institutional cooperation between the UT and the CREPMF to promote higher transparency and supervision standards in the auction market (UT) and the syndication market (CREPMF) and, thus, facilitate the fungibility of securities.

40. The excessive dependence of certain banks on BCEAO refinancing needs to be addressed through the development and formalization of funding plans. Any bank that exceeds a predefined threshold of dependence on the BCEAO should be required to prepare a funding plan, which would be reviewed and monitored by the BCEAO and the CBU. Over time, it could replace the existing quantitative limits. Under such a plan, the bank in question should reduce its financing to within the limit established by the BCEAO by controlling the growth of its balance sheet and actively raising funds from customers and in the market. The banks in question would retain access to BCEAO financing subject to careful implementation of the funding plans.

41. The BCEAO should introduce an ELA framework as a financial stability measure. The ELA would enable the BCEAO to provide liquidity on an urgent basis to solvent, viable banks facing temporary liquidity pressures that have exhausted their collateral that is eligible for monetary policy operations and all other sources of financing. The BCEAO would provide ELA on the basis of an expanded collateral pool, with the additional risk to the BCEAO offset by risk-control measures and conditionality entailing a repayment plan prepared by the beneficiary bank.[10] The financial terms should discourage the use of the ELA other than as a last resort, without jeopardizing the user's solvency. Consistent with its financial stability mandate, the BCEAO would be responsible for the ELA but would cooperate with the supervisor to assess the solvency of counterparties and impose appropriate conditionalities.

FINANCIAL SECTOR DEVELOPMENT

A. Access to Finance for SMEs

42. Access to financing remains one of the main constraints on private sector development in the WAEMU. The financial sector does not provide sufficient support to corporates (only 24.4 percent of companies have a loan or a line of credit). Formal borrowing is extremely weak, ranging from 10 percent in Burkina Faso to 2.8 percent in Côte d'Ivoire, while informal borrowing in these countries amounts to 35 percent and 25 percent, respectively. Domestic credit to the private sectors in the region represents only 25 percent of GDP. This poor performance can be attributed to several factors: a weak regulatory environment, particularly in the area of insolvency and debt recovery; a still less-than-optimal credit infrastructure; a poorly trained judicial system; limitations in the area of competition; and lack of sophistication of SMEs (i.e., informality, weak managerial capabilities, poor corporate governance and deficient financial information). The gender gap in access to finance has narrowed[11] over the past five years but it still exists[12]. In Ivory Coast for example, men have higher access to financial services than women with 65 percent and less than 40 percent having an account respectively. In Mali, the gender gap also exits but is less pronounced.

Regulatory Framework of Credit

43. The regional regulatory framework governing credit should be improved to address the SME financing gap. The OHADA uniform act on secured transactions, which governs the characteristics and fundamental components of the constitution, recognition, and enforcement of security interests for all types of assets (movable and immovable, tangible and intangible), was amended in 2010. Also, several WAEMU member states recently adopted instruments governing leasing and factoring.[13] Despite these reforms, the financial sector is still somewhat reluctant to lend to SMEs because of difficulties in obtaining effective guarantees and reliable information on a company’s condition. This situation is reflected in the increased cost of credit for SMEs, and its limited

[10] The BCEAO should also conclude a memorandum of understanding with regional budget authorities governing the use of government guarantees in case of concerns about a bank's solvency, the adequacy of its guarantees, or the need to support a resolution.

[11] This is the case in Mali (2021 Findex).

[12] 2021 Findex.

[13] In December 2011, for example, Senegal adopted Law No. 28/2011 on leasing.

availability. The high rate of interest (15 percent) applied to credit discourages SMEs from accessing credit. These unfavorable conditions often lead SMEs to turn to microfinance associations that have developed on the ground, which tend to be more flexible in terms of requiring collateral, but they impose even higher interest rates (up to 24 percent).

44. In many WAEMU member states, the investments in credit infrastructure that should have accompanied the OHADA reforms have not materialized including digitization of the movable collateral registry. In several member states, projects to digitize the Registry of Businesses and Security Rights (RCCM) and the land registry have not been fully implemented. The land registry has deficiencies that particularly weaken SMEs and businesses that are trying to leave the informal sector for the formal sector. These deficiencies stem from various factors, particularly partial or delayed updates of the registry. Moreover, in the absence of formal ownership titles, the use of mortgage guarantees by companies that have real estate assets becomes limited. Finally, even when SMEs are in the formal sector, they do not always comply with the obligation to submit regular annual accounting records to the RCCM, thus limiting the registry's relevance. A large number of WAEMU member countries have not digitized the movable collateral registry despite the OHADA reforms. Inadequate guarantees registration prevents the use of movable assets as collateral. This affects in particular SMEs that usually do not have immovable property to back a loan and mostly possess movable assets.

45. Debt recovery procedures in WAEMU member states are typically lengthy, which discourages banks from supporting segments deemed to be higher risk, such as SMEs and farmers. The judicial system of WAEMU member countries is inefficient. Debt enforcement procedures are slow and costly, placing unnecessary obstacles in the way of recovering claims. Judicial debt recovery procedures take between two and four years, in some extreme cases up to seven or eight years. Despite the clarity of the texts, legal procedural deadlines are regularly ignored, and judges grant numerous procedural delays. Consequently, banks try to wait as long as possible before resorting to enforcement procedures in the courts.

46. Despite the 2010 reform modernizing the OHADA act, insolvency procedures remain rare. In the absence of an effective insolvency regime, risks to the banks become greater, particularly with higher-risk clients such as SMEs. This situation in turn affects the proper development of credit. Several factors undermine the application of insolvency laws in the WAEMU. In particular, there is a lack of specialization among judges, and frequent rotation in the courts prevents judges who have limited knowledge from gaining the experience they need. The insolvency administrators (*mandataires*), who are essential to an effective insolvency system,[14] are not trained in business law, and their profession lacks a responsive oversight structure. Moreover, the procedures are lengthy and costly, with weak recovery rates. In addition, the fact that the administrators' compensation is, in practice, linked to how long their mission lasts can pose conflict-of-interest problems because it creates an incentive for them to drag things out.

[14] The administrator performs most of the analysis of the data and tasks associated with the debtor's assets, their sale, and creditors' claims, in addition to supervising extrajudicial and judicial recovery processes.

Credit infrastructure

47. The credit information system in the region has been expanded with the creation of the BIC in 2015. Comprehensive, well-functioning credit-reporting systems are critical for supporting credit origination for individuals and SMEs. Placed under the purview of the BCEAO, the BIC collects information on individual and legal entities from financial institutions (banks and microfinance institutions), public sources, and utilities. The data collected primarily concern information related to loan payment or repayment history, the loan terms, the purpose of the financing, the type of collateral, and the sector of the activity.

48. Reforms of the WAEMU's credit infrastructure should be pursued to increase the effectiveness of the BIC in particular as it relates to consent and identification. While the creation of the BIC has been an important step forward, several problems remain. The risk of homonymy—names that are pronounced or spelled the same yet denote different entities—is high and raises concerns about the ability to accurately identify clients. On average, only 65 percent of the population in the WAEMU countries has a national identity document. In addition, the legal requirement to obtain the mandatory prior consent of borrowers,[15] to submit data to the BIC, including that of even very small SMEs, is a serious limitation because it prevents financial institutions from developing a comprehensive view of their borrowers' outstanding debt. While it is common to request individual consumer consent to enquire data from credit bureaus, this is not the case to submit credit data from regulated entities to credit bureaus[16].

49. The BIC should continue improving the quality of information and expanding its sources of credit data. Data collected by the BIC varies among countries and banks complain in some cases about the quality of the credit reports. Currently, data collected is limited to credit data. To improve the quality of credit reports, the BIC should explore the inclusion of additional data points to make credit reports more robust. For instance, the BIC could explore options to include alternative data beyond data from banks or MFIs such as supply chain data from SMEs or utilities payment data.[17]

50. The BCEAO approach to Credit Reporting System (CRS) oversight should be reviewed and aligned with the General Principles for Credit Reporting (CRGPs). BCEAO is only focusing on supervising the BIC and not the CRS as a whole including the regional Credit Registry (*Centrale des Risques*) and the Cheques Database (Centra*le des Incidents de Paiements*) seeking efficiency and effective flow of credit information satisfying the needs of the different participants. In addition, the way the BIC is supervised is based on legal compliance instead of being based on a more holistic approach covering other relevant aspects (e.g. how to improve quality and accuracy of data, possible

[15] Article 44 of the law establishes the need to obtain a client's consent before submitting data to the BIC.

[16] The GPCR establishes that "*when data is not obtained directly from the data subject or with his/ her consent, data subjects are notified (informed) of the collection and sharing of such data*". In several countries there is an underlying legal basis for data collection. In countries where this is not the case, a precondition for data collection is that consent be obtained from data subjects" Please see paragraphs 84 and 85 of the GPCR (World Bank, 2009)

[17] Currently the BIC collects data from some utilities but not in a consistent manner. In addition, not all utilities in WAEMU member countries share the relevant information with the BIC.

linkages with other database like the collateral registry) developing a risk-based approach supervision.[18]

Competition in the Financial Sector

51. Thanks to the entry of new participants, the level of banking sector concentration in the WAEMU is falling sharply. Between 2007 and 2019, concentration in the banking sector fell in terms of balance sheet size, extension of credit, and attraction of deposits in seven of the eight WAEMU countries.[19] Only Guinea-Bissau maintains moderately concentrated markets in terms of assets and loans and very concentrated markets in terms of deposits.[20] These changes are due to the entry of regional or international private banking groups from other parts of Africa and the European Union, which now hold more than half of the market share. As of late 2020, 73 percent of the banks operating in the region belonged to 29 international banking groups. Taken together, these 29 banking groups held 85 percent of the sector's assets, 82.9 percent of the Automatic Teller Machines (ATMs), and 85.4 percent of the banking accounts. The remaining operators are generally smaller, unaffiliated, national private banks and state-owned banks.

52. The WAEMU has also benefited from the entry of nonbank participants that have brought with them wider access to financial services and introduced more competition in the sector. Over the last few decades, digital technology has encouraged financial innovation in the subregion. These changes have enabled the financial sector to develop new economic models, products, and distribution channels. New participants have entered the market, offering broader access to financial services, particularly for traditionally underserved segments. However, in some cases, the current regulatory framework has not been able to evolve as rapidly as the innovations in the financial sector. In particular, the BCEAO has not yet developed regulations for financial technology (fintech) companies.

53. Strengthening the regulatory and institutional framework of competition in the WAEMU is fundamental to attracting new entrants who can compete with the traditional operators. The WAEMU framework was established to support the creation of a common market (similar to the one in the European Union) with a robust regional competition framework including in the areas of financial services. In practice, this objective has yet to materialize. Since 2002, the WAEMU has had a legal framework for penalizing anti-competitive agreements and abuses of a dominant position. Nonetheless, in this context, the national competition structures (including sectoral regulators) do not

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[18] Please see Role E and Recommendations for Effective Oversight of CRS GPCR 2009

[19] The level of concentration is measured in terms of the Herfindahl-Hirschman Index (HHI) according to the figures shared by the BCEAO.

[20] Based on the classification of the U.S. Department of Justice defining two thresholds, 1,500 and 2,500: markets in which the HHI is between 1,500 and 2,500 points are considered moderately concentrated; markets in which the HHI exceeds 2,500 points are considered highly concentrated. See US Department of Justice, *Herfindahl-Hirschman Index* (Washington, DC: United States Department of Justice), updated July 31, 2018, https://www.justice.gov/atr/herfindahl-hirschman-index. The HHI for the banking sector in Guinea-Bissau indicates moderate concentration for balance sheets and loans, at 2,069 and 2,158 points respectively, while the HHI for deposits, at 2,696 points, indicates high concentration.

have the power to enforce the rules of competition in the event of a violation, where the WAEMU Commission has exclusive jurisdiction. Consequently, potential anti-competitive behaviors which could be dealt with by national competition structures slip through the net unidentified and unaddressed. Moreover, although draft regulations exist, control of the anti-competitive effects of concentration remains voluntary and the WAEMU Commission has so far evaluated only two operations in the financial sector. Additionally, even if the Commission and the BCEAO could cooperate specifically in such concentrated operations, formal cooperation mechanisms between the BCEAO and the WAEMU Competition Commission on the one hand and between the BCEAO and other sectoral regulators on the other have still not been developed. Lastly, the promotion of open banking will allow non-financial operators with new business models to compete with conventional players.

54. Other regulatory instruments designed to strengthen competition, either specifically in the financial sector or throughout the economy, need to be developed, implemented, or transposed. For example, even though the WAEMU framework law on banking regulation establishes that credit institutions are subject to specific competition regulations, these regulations have still not yet been adopted. The WAEMU Directive on the transparency of member states' relationships with public enterprises, which is a fundamental tool for achieving a level playing field between the public and private sectors, has so far been transposed by only one of the eight countries in the zone (Mali). Although there are regulations targeting control of the granting of state aid by the Competition Commission, no notifications/disclosure in this regard has been done to financial markets. A new regulation to govern Fintech activities is also warranted to address competition issues in this emerging market such as the exclusivity agreements between e-money providers and telco operators with market dominant positions (see Digital Financial Services section).

55. Regional and national authorities should evaluate the current regulatory framework from the viewpoint of competition. The adoption of regulations intended to resolve market failures can sometimes cause problems of competition. An example would be the capping of interest rates, which can create key competitive distortions.[21] Some operators believe that caps keep conservative, risk-averse banks from expanding beyond their low-risk clients and limit the ability of small financial institutions to reach unbanked segments of the population. Similarly, some privileges granted to public operators offering commercial services may lead to unequal conditions of competition compared to private competitors. These privileges notably include preferential financing of public projects, the management of public funds (for example, the domiciliation and payment of COVID-19 assistance funds), and the domiciliation of the salaries of public officials on the books of state-owned banks. In some cases, prudential regulations may have unexpected consequences in terms of competition. It is thus important for regulators to take into account the effects of these policies on competition when introducing new reforms.

National and other regional initiatives to support SMEs

[21] The usury rate is established at 15 percent for banks and 24 percent for MFIs. See Decision No. CM/UMOA/011/06/2013 of June 28, 2013 establishing the usury rate of member states of the West African Monetary Union, Article 2.

56. National authorities should play a more proactive role to unlock finance for SMEs. Since 2018, the BCEAO has been leading an initiative to support the financing of SMEs by credit institutions called "SME mechanism" (*Dispositif PME*). It contains several components including a refinancing window for SME credits. The window provides liquidity to banks wishing to extend credit to SMEs. Discussions with banks operating in the region show that the initiative has not been widely used as banks are still experiencing high credit risks due to weak credit infrastructure and poor legal and regulatory environment. The regional authorities have also opened in 2017 an SME window in the regional capital markets. However, no SME listings have taken place yet. Since SME challenges are not the same across member countries, it is advisable to conduct these support initiatives at the national level. For example, to address credit risks, seven out of eight WAEMU member countries have launched, over the years, partial credit guarantee mechanisms (i.e., Burkina Faso, Mali, Senegal). While some of these risk-sharing mechanisms have not fully fulfilled their mandate due to governance and capitalization problems, domestic authorities are encouraged to pursue their efforts to unlock finance for SMEs which represent between 80 percent and 95 percent of companies identified in the region.

B. Payment Systems: Digital Financial Services

57. The WAEMU region has established solid foundations for its regional payment system, which have contributed to the uptake in electronic payments and financial inclusion in the region. STAR-UEMOA, an RTGS system operated by the BCEAO, is at the heart of the regional payment system: all clearing and settlement systems settle in STAR in central bank money. With 145 participants at the end of 2021—mainly banks and financial institutions—STAR-UEMOA has processed nearly 1.5 million transactions for a total value of CFAF 677,342 trillion, which represent an average increase over the last five years of 15 percent in terms of volume and 8.2 percent in terms of value. The other two regional payments systems are SICA-UEMOA, the automated retail payments clearing house, also managed by the BCEAO; and GIM-UEMOA, the regional switch for card transactions. The BCEAO has developed a solid regulatory framework for the issuance of electronic money, which has enabled the rise in accounts and transactions based on electronic money (from 63 to 132 million accounts between 2018 and 2021, and from 23.8 to 63,8 million FCFA in assets over the same period, or an increase of 37.7 percent to 49,1 percent of the rate of activity).

58. Thanks to the development of electronic money, notable progresses have been recorded in the area of financial inclusion, allowing the region to catch up with the sub-Saharan average. The rate of access to an account grew quite significantly between 2014 and 2018[22] This development has allowed the account access rate in most WAEMU countries to approach the Sub-Saharan African average (42.6 percent). In 2014, by contrast, the rates in WAEMU (with the exception of Cote d'Ivoire) were well below the Sub-Saharan average. This positive development is largely attributable to electronic money accounts, which have grown quite significantly over the past years and, in most countries (with the exception of Niger), have reached or even moved above the sub-Saharan African

[22] The rate increased from 15.4 to 42.3 percent in Senegal and from 14.4 to 43.2 percent in Burkina Faso, for example, with lower growth of 41.3 percent in Côte d'Ivoire where the rate was already 34.3 percent in 2014 (Findex 2014 and 2018).

average of 20.9 percent.[23] This strong growth is to be credited to the electronic money framework developed by the central bank and to the development of an open and dynamic market, with the arrival of new entrants issuing electronic money and financial technology companies (Fintech).

59. Despite this significant progress, the digitization of payments is still limited, with a predominance of cash. This predominance of cash can be explained by socio-economic reasons (limited financial literacy) but also by technical factors such as the lack of interoperability, and the unavailability of instant payments and a narrow acceptance network for electronic payments. The use of cash remains very high; only large merchants (supermarkets, some pharmacies, gas stations and hotels) accept electronic payments, and innovative electronic payment methods (via QR code, for example) are still rare, even though the arrival of new players on the market such as Wave is democratizing electronic payments for small merchants. Moreover, despite the authorities' efforts to digitize government payments, especially as a result of the COVID-19 pandemic, there is still a predominance of cash in government financial support programs. Although the percentage of adults who issued or received at least one electronic payment grew sharply between 2014 and 2018, it still remains limited.[24] Bill payment based on an account is below the Sub-Saharan average of 7.7 percent, as are receipts of employee salary into an account in the private sector and card payments. The regional project aiming at transforming the GIM-UEMOA into a platform for regional interoperability and for instant payments, which was not making sufficient progress, was recently dropped in favor of a new platform, to be developed in-house by the BCEAO.[25] The ability to transfer funds between bank accounts and electronic money accounts, and between electronic money accounts with different issuers, is not yet widespread and is contingent on the existence of commercial agreements. Merchants still cannot benefit from the immediate credit of transactions to their accounts on a 24/7 basis.

60. While electronic money has played a fundamental role in the development of payments in the subregion, its business model remains precarious and needs to evolve. The arrival of new nonbank providers issuing electronic money, such as Wave, has put downward pressure on fees for the traditional issuers of electronic money, particularly those emanating from telecom operators that do not have other complementary financial sector activities as alternative sources of income. This pressure on prices benefits users but reduces the margin of activity for the issuance of electronic money, with notable repercussions on the agents. To continue its development, the use of electronic money must be expanded to include uses that, for the moment, are undeveloped in the region, such

[23] For example, the accounts have increased from 3.1 to 33 percent in Burkina Faso, from 6.2 to 31.8 percent in Senegal, and from 1.4 to 21.5 percent in Togo.

[24] The percentage level is at about 30 percent in Benin, Togo, and Mali and 40 percent in Burkina Faso, Senegal, and Cote d'Ivoire.

[25] This refers to interoperability among the different networks issuing e-money and among bank accounts and e-money portfolios. With the new project, GIM-UEMOA will remain the card switch only and will not process e-money transactions as originally planned. A new governance framework for the project was put in place on January 31, 2022, with a Steering Committee, chaired by the Secretary General of the BCEAO and composed of the Departments in charge of payments, information systems, risk prevention and financial inclusion. In addition, a Project Management and a Project Management have been set up, with a dedicated full-time workforce. The management of the new system will be carried out exclusively by the Central Bank, instead of GIM-UEMOA. The revised roadmap foresees the launch of the new services by the end of December 2022 and the closure of the Project in 2023.

as merchant payment or bill payment, and must be accompanied by value-added services, particularly for merchants (for example, access to credit, and accounting or inventory management services).

61. Several national treasuries have also informed the central bank of their intention to issue electronic money. These treasuries plan to better serve populations that have limited access to digital financial services but also to accelerate the availability of funds collected by the public sector. The BCEAO has already developed a guide[26] for the digitization of payments, seeking to support the member states in this approach. These initiatives could be very detrimental to the development of the e-money ecosystem, because they present a risk of crowding-out of the private sector and of distortions of competition, in case they lead to exclusivity clauses, with beneficiaries of Government payments being required to have their e-money wallets with the Treasury and not with electronic money issuers already present in the market. Issuing e-money would also imply operational and cyber risks, and would require technical and risk-management capacities that some Treasuries might not have.

62. The legal framework governing payments in the WAEMU zone is not in line with current market developments. This framework was established in early 2000, at a time when the market had characteristics quite different from today. The result is that various innovations in the area of payments, particularly with regard to non-bank providers and digital products, are not covered in the existing framework and consequently are not regulated. This has created a legal vacuum and potentially discriminatory treatment among providers engaged in the very same activities. To date, the banking law applies to banks and bank-like financial institutions (*établissements financiers à caractère bancaire* – EFCBs). Regulation No. 15/2002 on payment systems thus applies to banks and EFCBs, as well as to payment systems in which the members are banks or EFCBs; the other categories of non-bank service providers are not covered by the legislation. Similarly, Regulation No. 15/2002 governs checks, electronic payment orders and, although to a lesser extent, bank cards. Thus, here again, it only covers one part of the market. As a result, the providers of payment services are not subject to standardized, homogeneous regulations that constitute an autonomous and uniform category, with a level-playing field between banks and non-bank services providers.

63. A dynamic fintech ecosystem is emerging in some countries in the region but lacks an adequate legal framework regulating some of the services offered by Fintech. In 2020, the BCEAO conducted a survey on fintech that revealed a variety of participants, with a total of 180 Fintech companies operating in the region. Fintech companies are mainly involved in payment services, such as the distribution of electronic money, money transfers, and payment aggregation. They also offer digital platforms for e-commerce, data and financial management. However, some of the services offered by Fintech are not regulated yet. The BCEAO created an Innovation Office (BCSF-UEMOA, *Bureau de Connaissance et de Suivi des Fintechs*) to promote dialogue between the BCEAO and Fintechs. The Financial Stability Committee, which brings together all the regulators of the financial sector, currently serves as a platform for exchange and consultation between regulators on the issue

[26] According to this guide, the services to be offered by the states should be limited to the recipients of public benefits.

of Fintech. Lastly, the draft banking law contains provisions on Fintechs and defines their oversight framework. The BCEAO indicated that it intends, like other central banks, to take advantage of technological innovations in the field of money and payments and is conducting research work on the challenges and opportunities of issuing a central bank digital currency in the Union. The central bank has however not yet issued a regulation regarding crypto assets, while it should be noted that Togo ranks ninth in the world in terms of usage of crypto assets in 2021[27]. There is therefore a risk of growing discrepancy between private sector activity and regulatory supervision in this area.

C. Long term finance: Capital Markets Development and the Role of Social Security Institutions

Capital Markets Development

64. Despite the sustained efforts of WAEMU authorities, regional financial markets are still shallow and insufficiently liquid. As of late 2021, the Regional Securities Exchange (BRVM) has a total capitalization of CFAF 13.332 trillion, or 13.8 percent of GDP (compared to CFAF 10.419 trillion, or 10.6 percent of GDP, as of December 31, 2020) which consists of listed equities and bonds. The market remains very shallow with only 46 listed companies—the majority of them being based in Côte d'Ivoire. The largest group of listed companies remain banks, followed by SOEs, and then privatized companies. IPOs remain sporadic, with only 9 IPOs since 2012. The regional stock exchange (Bourse, Régionale des Valeures Mobilières [BRVM]) has undertaken several initiatives to boost the number of listed companies on its exchange, but positive results have yet to materialize. The slow development of the regional markets is the result of several foundational shortcomings including: (i) illiquid and fragmented bond markets; (ii) lack of commitment of national authorities to open the capital of SOEs in the regional market; (iii) inadequate taxation regime; (iv) lack of a diversified investor base in particular pension funds; and (iv) weak institutional capacity of the regional regulator. The lack of development of the markets hampers the development of long-term finance for both public and private entities.

65. The sovereign bonds market is fragmented and illiquid. As such, it does not provide an anchor to support the development of the other segments of the regional market. At end-2021, sovereign bonds issued domestically represented FCFA 16,833 billion (10.6 percent of WAEMU GDP). WAEMU has a somewhat fragmented, dual-issuance mechanism for sovereign bonds. Sovereign bonds are either issued by auction under the coordination of "UMOA-Titres" (UT) using a platform developed by BCEAO or issued by syndication on the Regional Stock Exchange (BRVM). At the end of December 2021, the volume of securities issued by auction represented 64.3 percent of the total outstanding, with the share securities issued by syndication at 35.7 percent. The coexistence of two markets for similar assets affects liquidity, already impaired by the buy-and-hold strategies of banks, the efficiency

[27] The Regional Public Investment and Financial Markets Board (*Conseil Régional de l'épargne publique et des marchés financiers*-CREPMF) published a press release on high-risk investments in March 2021. This document specifically informs the public of Benin, Niger and the Togo of the prior visa of the Regional Council for all public offering operations on the WAMU regional financial market, in particular for promises of high returns, such as cryptocurrencies.

of this market, and member states' yield curve. The fragmentation of the sovereign debt market is exacerbated by the relatively small size of certain economies in the region and constraints on cash management by the governments, which do not allow for the creation of large benchmark bond issues that would support secondary market liquidity and the construction of yield curves for government securities. Money markets are also not developed as a result of almost inexistent interbank market.

66. The WAEMU member countries could contribute more actively to the development of the regional markets by listing shares of SOEs. As indicated, only 46 companies are currently listed. The relative lack of companies and available securities listed on the market is not without consequences for the region's economies. It fuels speculation and high volatility. Governments across the region should lead by example and contribute to the development of the market by partially opening the capital of SOEs in the regional market. Given the large size and value of some public companies, their listings on the exchange could create renewed dynamism at the BRVM, while giving regional and local investors fresh opportunities to participate in the wealth created by well-managed and profitable SOEs. At the same time, public companies operating in high-priority development sectors, such as agriculture and energy, could find alternative sources of funding to further expand, thereby contributing to food and energy self-sufficiency. Furthermore, listing of public companies in the regional market will increase transparency and accountability of these companies. A more dynamic market resulting from the listing of SOEs can encourage more private companies to join the market.

67. The current tax regime should be reviewed to increase the competitiveness of the regional securities market. Public authorities are encouraged to revise the region's tax regimes applicable to financial products to make the regional market more competitive with regional peers and to more rapidly implement regional laws issued by the WAEMU Commission. In this context, the implementation of the 2010 tax directive[28] is paramount to harmonize the taxation regime of financial products across member countries. The regional authorities have made genuine efforts to stay current in reforming the regulatory framework under which capital markets operate and align it to international standards. These efforts include (1) working on improving the regime for securitization and covered bonds, which is ongoing, (2) adopting in 2021 a regional law (Loi Universelle) issued to harmonize the level of sanctions against abusive market players, and (3) adopting a regulatory framework for venture capital funds and private equity. Competitive taxation regime of private equity is critical to attract large investment pools into the region's economies.

68. Further efforts should be conducted to diversify the investor base. For instance, the role of pension funds (Social Security Institutions-SSIs) is still marginal and could be strengthened. The market share of SSIs is very modest despite their substantial capital reserves of CFAF 3.581 trillion. SSIs invest mostly in government related activities. The distribution of investments was unchanged in 2018, 2019, and 2020, with a large portion of term deposits (short-term investment)—including deposits to the Deposits and Consignments Fund (48 percent), securities, primarily sovereign bonds (18 percent cent) in addition to loans to the government and public enterprises (2 percent). Shares in the SSI

[28] Directives do not have direct applicability in the national legal environment and require transposition measures by local authorities.

portfolios (8 percent) are mostly of state banks which in turn have also purchased large numbers of sovereign bonds.

69. The regional regulator should continue strengthening its institutional mandate and capacity. The *Conseil Régional de l'Epargne Publique et des Marchés Financiers* (CREPMF), the regional regulator, was established in 1997 and since then has been in charge of the oversight of the development of the regional market. Although the institution continues updating its regulations to stay in line with global good practices, it suffers from the shortcomings of its regional governance. An in-depth diagnostic should be conducted to improve the governance of the institution including in the following areas: (i) State representation in its governance bodies; (ii) role and decision-making powers of the executive director; (iii) enforcement and sanctioning powers; and (iv) organization of the general secretariat.

70. The authorities continue to carry out important actions with a view to developing and improving these markets. The regional authorities and the World Bank Group have strengthened their cooperation with the signing in 2018 of a memorandum of understanding called the J-CAP program. In this context, the structuring priorities for the development of the regional financial market for 2020–2024 are grouped around four axes: (i) improving the governance and capacities of regional financial market participants (CREPMF, central structures, commercial actors); (ii) strengthening the protection of the regional financial market with the modernization of legislation on penal sanctions relating to stock market offenses or the development and implementation of a professional training plan for market players; (iii) improving the attractiveness and diversification of the regional financial market;[29] and (iv) strengthening regional and international cooperation with regulators, associations and international institutions.

The CIPRES and the Social Security Institutions: Roles and the Path Forward

71. Sixteen African countries, eight of which form the WAEMU region, have an Inter-African Conference on Social Security (*Conférence Interafricaine de la Prévoyance Sociale* – CIPRES) that is primarily responsible for ensuring the harmonization of legislative and regulatory provisions applicable to the SSIs.[30] This institutional arrangement has no equivalent in the world. The treaty establishes three bodies. The first is a Council made up of the ministers responsible for oversight of the SSIs in each member state. It is responsible for, among other things, adopting instruments governing the operations of the social security sector (regulations, directives, decision, recommendations, opinions). Second, a Social Security Oversight Commission (hereinafter, the Commission) is responsible for ensuring the proper management of social security institutions in the member states. Thus, the Commission, at least in theory, plays a very important role within the CIPRES.

[29] Plans to diversify the regional financial market and make it more attractive include, for example, a development project for new products and new compartments, the review of taxation securities on the financial markets, and the establishment and promotion of innovative financial instruments such as collective investment organizations in real estate (OPCI), securitization, and covered bonds.
[30] The CIPRES consists of several African states that go beyond the borders of the WAEMU, with the CEMAC, Madagascar, and the Democratic Republic of the Congo.

Finally, an Executive Secretariat brings together CIPRES staff and resources and provides operational support.

72. However, the CIPRES does not play a true "regulator" role with respect to the SSIs because they are more directly subject to the oversight of the ministry in charge of social security and/or the ministry of finance in each member country. The member states continue to exercise their oversight through a regulatory framework still defined at the national level. In practice, the Commission is given only the power to make proposals to the Council on any subject related to the operation and management of local funds. Furthermore, regional regulatory harmonization remains subject to a complex decision-making process. For example, the Council's adoption of regulations (directly applicable in the member states) or a recommendation (non-binding) on legislative harmonization requires a unanimous decision of the members of the Council. As for directives, they are transposed in each member state according to a process that spans an average of three to four years.

73. The Commission is not given sufficient legal powers to allow it to effectively carry out its mandate. It does not have its own decision-making powers except in matters related to the SSI control program. It does not have additional power to discipline SSIs in the event of failure to comply with the regulations. It may only inform and make recommendations to the minister who has oversight authority in the relevant state, or bring information about serious cases to the attention of the CIPRES Council. The Commission's follow-up missions show that recommendations from its inspection reports are rarely followed up, let alone followed. Finally, the Commission has no influence on the appointment of SSI managers, for which the selection criteria continue to be set at the national level.

74. Deficiencies in the SSIs regulatory framework and governance problems in these bodies are sources of vulnerability. The legal and institutional framework applicable to the SSIs is governed by a Council Recommendation, which is not binding. In practice, this recommendation preserves the oversight powers in each member state and gives the CIPRES little legal recourse. CIPRES surveys have highlighted governance problems in some SSIs (for example, managers who are sometimes unqualified, or were appointed according to vague criteria) as well as social benefit fraud or misappropriations, reflecting insufficient or inefficient control by the oversight bodies. Added to this are high management costs, delays or reliability problems in management reporting. This situation is exacerbated by the Commission's lack of enforcement powers.

75. The legal framework governing the investments and risk management of SSIs is suboptimal. On investments of assets, the framework is intrinsic to each member state and is limited to what is considered a "catalog" of investments imposing quantitative limits. The Commission has initiated a project to harmonize standards (which are still national) on the investment of SSI reserves, but further improvements are needed, especially in relation to the planned limits for securities, treasury, other bonds, and government loans, the latter remaining too high. Moreover, the SSIs should be required to have an investment committee supervised by independent administrators. Risk management, which is crucial for the investment function, continues to be excessively quantitative-driven and overly prudent. The national seek in fact to limit risks and not to actually manage them, which reinforces a culture of quantitative compliance. Moreover, investments of SSI reserves reveal excessive concentration in the banking and public sectors, which creates high exposure to sovereign risk and limits contribution to long-term finance. The SSIs' high exposure to sovereign risk raises concerns. Moreover, by investing primarily in assets that finance their own governments and their own public sector, the SSIs make too modest a contribution to the financing of the economy and do not add to the depth and liquidity of WAEMU financial markets.

76. To address these problems, authorities are urged to rapidly adopt an action plan to give the CIPRES regional regulatory powers. Several avenues could be explored. The first would consist of amending the treaty establishing the CIPRES so that regulations can be adopted by a simple majority, not by the very high requirement of unanimity. This would ensure that decisions on proposals made by the Commission can be made quickly. Second, it would be desirable that the harmonization standards on the regulatory framework for the SSIs be formally recorded in a regulation so that they become directly applicable to the states, without transposition. Third, it would be advisable to give the CIPRES the power to punish and to refer matters to the courts so that action can be taken when failures are detected by its inspection services. Fourth, increased transparency and improved governance of the SSIs would require defining criteria on the composition of an SSI's board of directors and the selection of its general director in a regulation. Fifth, giving the CIPRES approval power over these appointments, through fit and proper tests, would also be desirable. Such a reform should be accompanied by strengthening the human and financial resources of the CIPRES. Finally, the CIPRES should improve and finalize its draft prudential standards on the investment of the SSIs' reserve funds and develop standards in the area of risk management.

77. Beyond these technical recommendations, a more radical change may be needed in the institutional framework of the CIPRES. The uniqueness of the West African regional model of social welfare, and its intrinsic flaws, should prompt regional authorities to take a hard look at the situation and make a clear strategic choice consisting in creating a real regional authority for the effective regulation and supervision of SSIs, with all the necessary powers and resources ; this requires, the creation of an authority or a council such as exists for the CREPMF, and the termination of an organization which finds its only legitimacy in a "Conference" of states.

D. State-Owned Banks: Role and Governance

78. Although many state-owned banks (SOBs) have development mandates that are focused, some tend to be more responsive to the financial needs of the public sector. Of the 152 banks operating in the region, 17 are state-owned banks with total assets of CFAF 5.3092 trillion in 2021, or about 11 percent of the system's assets. The largest number of public banks is in Cote d'Ivoire (4), Mali (3), and Senegal (3); Niger and Togo have two each, and Burkina Faso, Guinee-Bissau and Benin have one each. Public banks had assets of 5,573.7 billion CFA in 2020, or about 11% of the system's assets.[31] That compares with an average of 43 percent in South Asia, 15.5 percent in the Middle East, and 13.4 percent in Latin America. SOBs in the WAEMU vary in terms of mandates,

[31] Source: Stress Test Database. Data were available at end-2020 for 12 public banks. Data on total assets is derived for this statistic from the Annual Report 2020 of the CB-UEMOA.

performance, shareholders, and business models.[32] The five largest public banks are located in Mali (3 public banks), Côte d'Ivoire (National Investment Bank) and Senegal (Banque de l'Habitat). None of the 17 public banks is considered by the CBU to be systemically important at the regional level. However, two public banks (both in Mali) are considered systemically important at the national level.

79. The mandates and business models of many of the public banks are difficult to classify. Public banks in the WAEMU vary in terms of mandate, shareholding and business model. On the surface, many of the banks fit the label of "development bank". However, most of the public banks describe themselves as "universal banks", and have a wide mandate in practice. A review of bank financial statements, and interviews with selected public banks, indicates that most banks eschew the "development" label. "Development" banks with narrow mandates are seen by many stakeholders (and current managers) as operating in a non-commercial manner, highly politicized and financially unsustainable (without ongoing government support). Most state-owned banks have much broader mandates and offer universal banking services, and have the ambition to be a large retail bank, including some still called "development bank", "housing bank" or "agriculture bank".

80. State banks are very exposed to the government both on the assets and liability sides. Several state banks finance the activities of the State through purchase of government bonds, or loans although apparently less than the private sector banks. A third of the state banks report holding no government bonds. The remaining two thirds hold some or significant amount of government bonds. All the public banks take deposits, and some banks have significant government deposits. Many of the public banks are funded by the deposits of the government and public enterprises. Government deposits by state entities in the public banks were about 34 percent of total government deposits in the banking system. In about half the banks, government deposits represent more than 30% of the total.

81. Some state banks have difficulties complying with prudential norms. Four banks have negative capital, reflecting the legacy of significant non-performing loans. Several other banks had low capital asset ratios. This situation appears to result from regulatory forbearance on the part of the CBU, as it allows these banks (and their government shareholders) to adopt a strategy of slowly rebuilding capital, rather than larger and immediate capital increases (or liquidation). Some state banks in Togo and Guinea Bissau are facing viability problems but the CBU has not taken action to restructure or resolve them.

82. State banks with some exceptions remain profitable. Two state banks had negative profits after tax in 2020. The profitability of the public banks was slightly lower than the profitability of the private banks in 2020. The return on assets (ROA) was calculated as 1.28 for public banks, and 1.304 for private banks. The return on equity for public banks was 14.6 for public banks, but 13.8 for private banks.

[32] The World Bank directed a survey of 17 state-owned banks to understand governance practices. Of the 17 banks questioned, only 12 responded to the survey. One of the state banks evaluated was privatized during the preparation of the FSA.

83. Most SOBs have begun to implement the new regulatory framework on governance but some are lagging. About one-third of the members of boards of directors are now independent members; all banks interviewed during the FSAP mission have created an audit committee; and about 85 percent have created a risk-management committee. Some SOBs, however, still lag behind. The CBU should encourage state-owned banks to quickly adopt all the governance regulations on corporate governance and internal control. It should also implement awareness and capacity-building programs, publish guidelines in certain key areas such as the evaluation of the board of directors, and set up certification programs for internal control functions such as audit, risks, and compliance.

84. The role of the state as shareholder has not been formalized through regulation within the WAEMU countries. The modern corporate governance practices of companies and SOBs assign great importance to clarifying the role of the state as owner-shareholder. They suggest the adoption of a "shareholding strategy" to establish the rationale of SOBs, and clarify the manner in which the government will exercise its ownership rights. These modern corporate governance practices also recommend adoption of a clear financial performance monitoring framework to officially establish the government's expectations in this regard. This approach has not yet been adopted by the region's governments, and little information on the role of governments is available. Member states are encouraged to formalize shareholder strategies for their public banks in order to clarify their role, mandate, and responsibilities, especially with regard to state financing.

GREEN FINANCE

A. Climate risks

85. The WAEMU region is highly exposed to climate risks. Between 1970 and 2020, the region was affected by more than 300 natural disasters. The most damaging in economic terms were droughts and floods. With two climatologically very different subregions—the semi-arid and hyper-arid countries of the northern Sahel region, versus the tropical savanna and tropical monsoon climates of the coastal countries to the south—there are large differences in the combined levels of exposure among WAEMU countries.

86. Medium and long-term climate events present a significant risk of disruption in entire sectors of the economy in the WAEMU region. Employing more than 43 percent of the region's labor force, and contributing 26 percent of its GDP (with an even more significant percentage than that for some countries), agriculture is one sector that is particularly exposed. It is estimated that the WAEMU region would, on average, suffer US$1 billion in losses per year if there were shortfalls in the production of its most important subsistence crops due to droughts.[33] These annual losses could be 2.5 times higher in the event of serious drought (such as occurs about every 10 years). Industries and services could also suffer significant losses in urban flood-risk areas.

[33] Data on regional architecture of agricultural risks and financing mechanisms in West Africa, World Bank Group, 2021.

87. The direct exposure of banks and insurance companies to climate change risk seems relatively modest, given the nature of their operations, and based on the (incomplete) data available. The banking system has limited understanding of exposure to climate risks. One-third of the banks have indicated they are able to identify the assets that are directly exposed to climate risks, and for those that have suffered losses, these have been very limited. These modest historical losses associated with climate risk can be explained by the particular structure of the banking sector: not very diversified, primarily exposed to large companies and government securities, with minimal exposure to the agricultural sector, and two-thirds of outstanding short-term debt. As for the insurance sector, it has very limited penetration in the agricultural sector and thus very limited exposure to climate risks (agriculture represents less than 1 percent of its regional portfolio in terms of premium volumes).

88. Agricultural banks seem to be most exposed to climate risks. The agricultural banks have suffered several crop-related losses due to droughts (cotton) or floods (rice). Yet these phenomena have had a limited impact on the increase in non-performing loans, considering these banks' credit practices—in particular, loans that are between 3 and 12 months, limited direct exposure to producers, and syndicated loans or loans collateralized by previous harvests. In some cases, the state has intervened to help clear producers' doubtful receivables.

B. Industry and Supervisory Practices

89. The protection mechanisms against climate risk set up by the states vary considerably. Four countries (Niger, Burkina Faso, Mali, and Senegal) have reserve funds in place in the event of natural disasters of varying size and scope. Niger and Burkina Faso manage relatively sizeable funds with large mandates, unlike Mali. Senegal has a newly created budget line dedicated to responding to disasters. For the 2019–2020 agricultural season, six countries subscribed to sovereign insurance coverage with the regional insurer Africa Risk Capacity (ARC). However, the extent of the coverage is limited. Agricultural insurance has significant development potential, but it exists on a large scale only in Senegal.

90. The WAEMU banking sector has still not incorporated the consideration of climate-related risks in its governance and risk-management procedures. Banks have limited awareness of the importance of these risks for their business plans and their long-term strategy. With very few exceptions—notably the subsidiaries of certain systemic financial institutions—the banks have not given much thought to how to incorporate climate-related risks in their governance and internal control frameworks, how to determine the level of their appetite for risk, nor what risk-management mechanisms they should adopt.

91. Green finance is still at an embryonic stage. Several regional institutions—in particular, the West African Development Bank (BOAD), CREPMF, and BCEAO—have adopted initiatives to promote green finance, such as the CREPMF's guide for the issuance of green, socially responsible, and sustainable bonds. The BCEAO is also a member of the international Network of Central Banks and Supervisors for Greening the Financial System. Several banks have applied to become members of the Green Climate Fund. However, to date, only one green bond has been issued in the entire region. Three initiatives would help to energize this market: (i) the introduction of a strategy for the greening of the WAEMU financial system, (ii) the adoption of a joint taxonomy for green assets among all the financial supervisors, and (iii) the issuance of green sovereign bonds. The authorities should also encourage financial institutions to subscribe to WAEMU's climate objectives and align their objectives with the Paris Climate Accord.

92. Considering the embryonic state of climate risk knowledge, identification, and management, a strategy needs to be adopted in the short term to manage climate risk and to sensitize supervisors and financial institutions to its urgency. It is recommended that the authorities set up a dedicated governance structure and mobilize resources appropriate to the challenges. It would also be important to better assess the incidence of these risks on the financial system, and their extent. A pilot phase could be conducted with a selection of the region's financial institutions to identify their exposure to climate risks. This could then be extended to other institutions over time. To raise the institutions' awareness, a qualitative formal survey on the consideration of climate issues in the financial industry could be conducted

93. In the medium term, WAEMU supervisors should define their prudential expectations vis-à-vis financial institutions for integrating climate and environmental risks in their risk management framework, as well as for publicly disclosing them. They should adopt mitigation measures when necessary by using the tools of Basel Pillar 2. Over the long term, the role of insurance as a risk coverage tool for the banks should be explored.

THE PERSPECTIVES OF THE AUTHORITIES

94. The authorities appreciated the open and constructive discussions of the Financial Sector Assessment Program. They noted the progress identified by the FSAP, including on the regulatory framework; banking supervision processes, methods, and capacities; and financial digitalization. The authorities broadly supported the FSAP's recommendations and made the following observations:

Further thought should be given to how best to configure the member states' representation at the CBU, WAEMU's Banking Commission. The current system of representation is in line with the WAEMU's institutional architecture and does not hamper the supervisors' independence.

The reinforcement of supervisory resources is important for enhancing bank supervision. The authorities have undertaken important initiatives in this regard, including introducing a dedicated IT budget and further developing supervisory capacity with the support of the Regional Banking Training and Studies Center and the IMF.

To enhance the impact of deterrent actions, the CBU's Supervisory Board started publishing disciplinary and financial sanctions as of December 2021.

The CBU's Resolution Board has prepared resolution plans for five systemically important banks and approved those plans on December 13, 2021, thereby making progress in finalizing such plans.

The FGDR contribution rate and 10-year horizon for reaching target reserves are set based on the estimated ability of banks to service their contributions and are in line with international practices.

95. The authorities expressed opinions with respect to the following points:

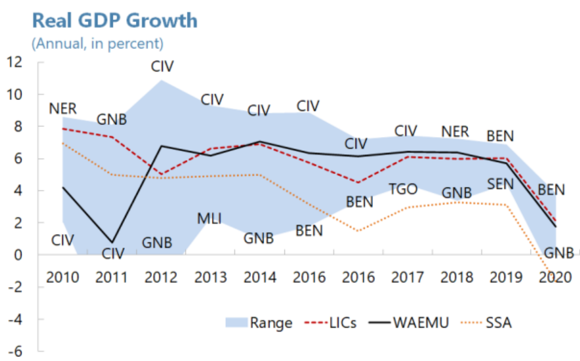
Regarding the BIC, the need to obtain a customer's consent before sharing any of the customer's data with any private entity is a fundamental provision that protects personal data and preserves consumer rights.

A system of identifying individual and legal entities using robust algorithms has significantly reduced the risk of homonymy—names that are pronounced or spelled the same yet refer to different entities—in the BIC.

FIGURES & TABLES

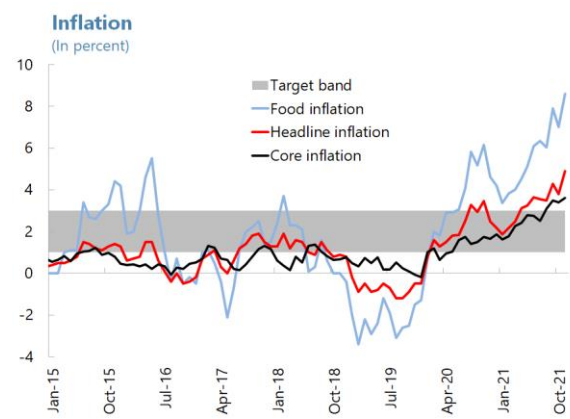
Figure 1. WAEMU: Key Macroeconomic Developments

Economic growth contracted sharply in 2020 as global demand fell following the COVID-19 outbreak.

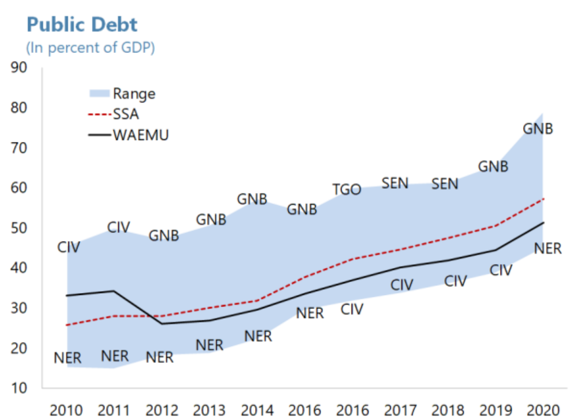


Sources: BCEAO; IMF, World Economic Outlook; and IMF staff calculations.
Note: BEN = Benin; CIV = Cote d'Ivoire; GNB = Guinea-Bissau; MLI = Mali; NER = Niger; SEN = Senegal; TGO = Togo.

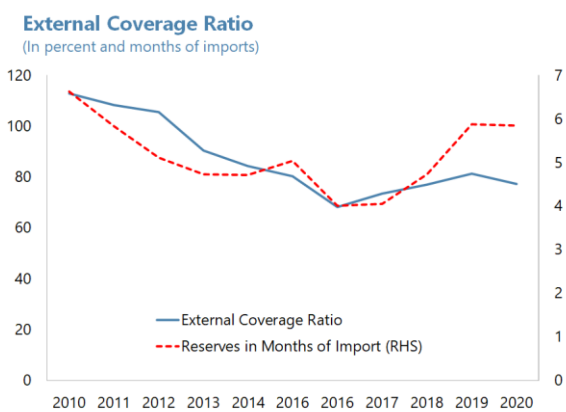
Inflation has been stable since 2010 but edged up in 2021 and now exceeds the upper limit of the target band.



Public debt increased rapidly in 2020 to compensate for weak economic growth.

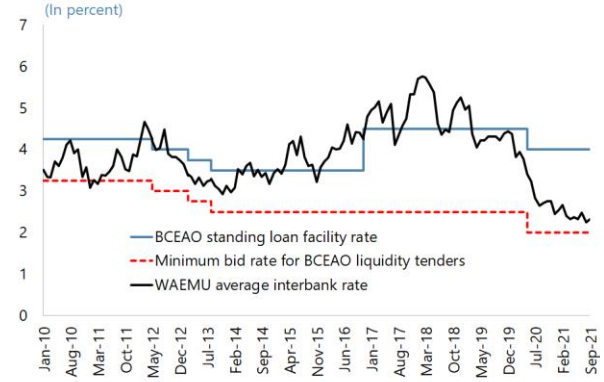


Foreign reserves stood at a comfortable level at end-2020.



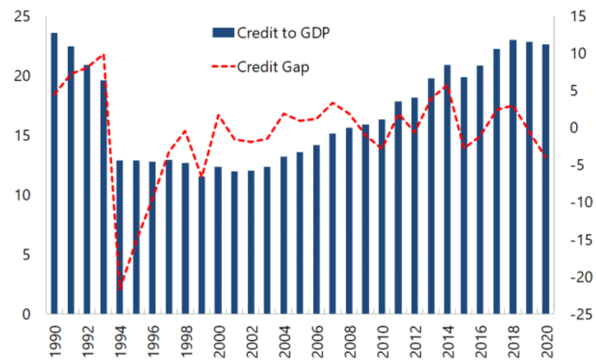
Monetary policy has been accommodative since the onset of COVID-19 in 2020.

BCEAO Policy Rates
(In percent)



Private sector credit grew faster than the economy until 2018; the credit gap has turned negative ever since.

Credit-to-GDP Ratio and Credit Gap
(In percent)

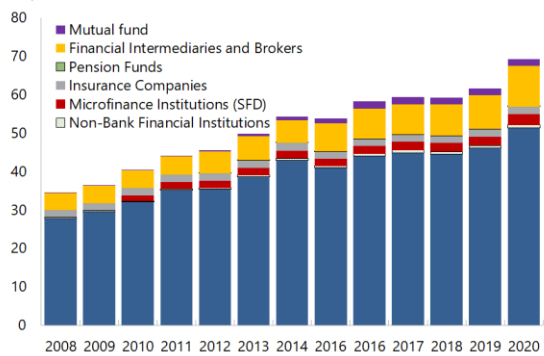


Sources: BCEAO, IMF and IMF staff calculations

Figure 2. WAEMU: Structure of the Financial Sector

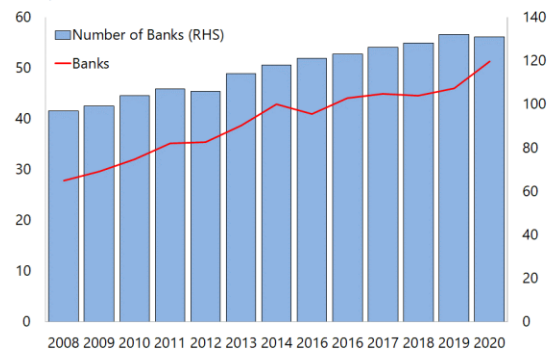
The banks continue to dominate WAEMU's financial sector…

Asset Structure of the WAEMU Financial System
(In percent of GDP)



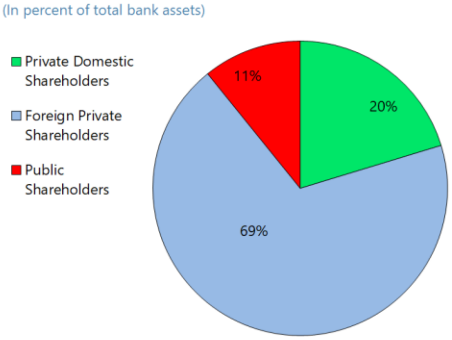
…experiencing stable growth since 2008, with assets now accounting for 51.3 percent of GDP.

Total Assets and Number of Banks
(In percent of GDP and number)



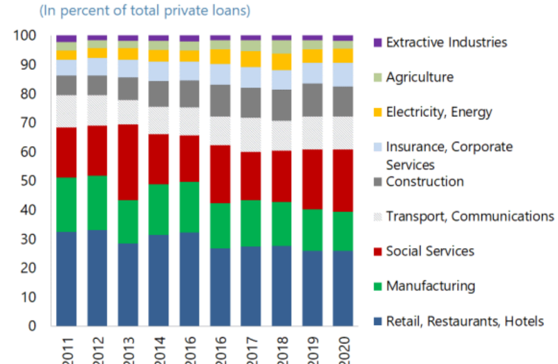
Banks' capital is sourced mostly from foreign private entities (including regional investors).

Bank Capital Shareholders, End-2020
(In percent of total bank assets)

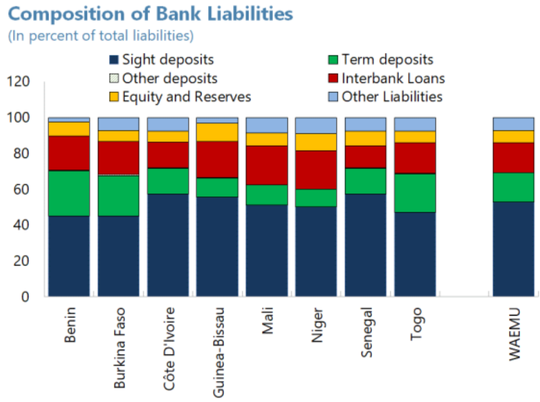


Their credit portfolios consist mostly of exposures to the hotel, manufacturing and services sectors (60 percent of total).

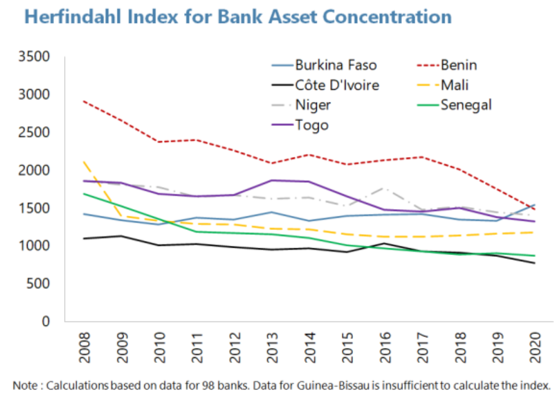
Sectoral Distribution of Loans
(In percent of total private loans)



Banks' financing stems mostly from customer deposits and BCEAO refinancing.



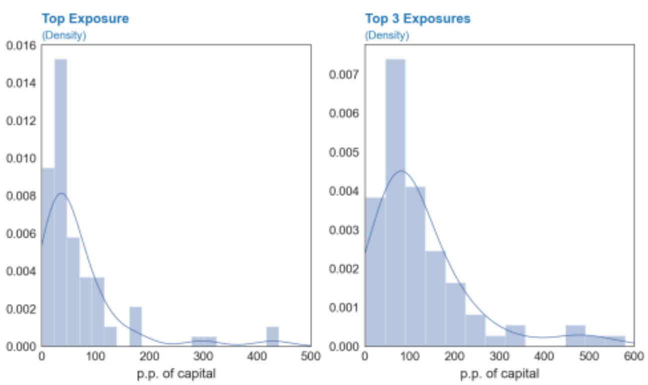
The banking sector has become less concentrated.



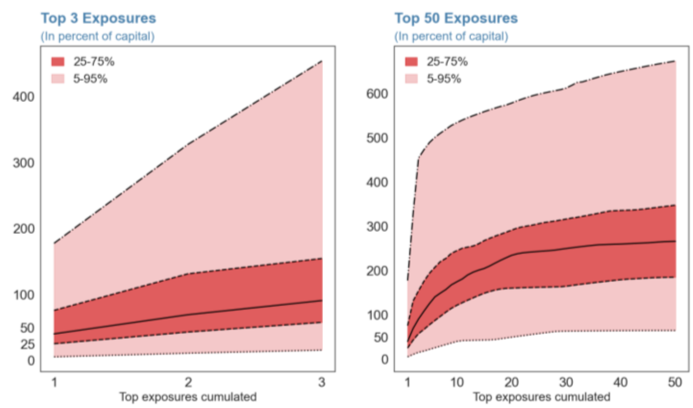
Sources: BCEAO; IMF; and IMF staff calculations

Figure 3. WAEMU: Concentration Risk

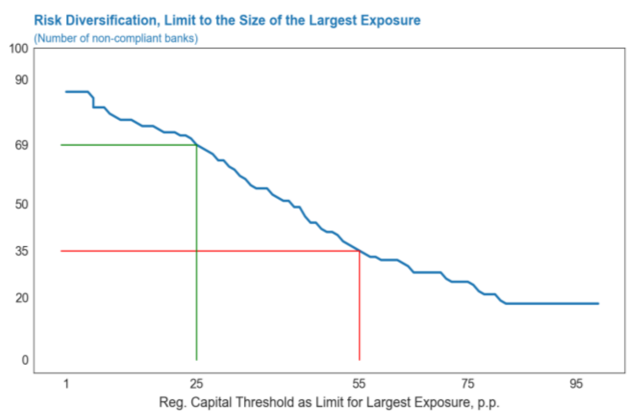
Banks' largest exposures account for a substantial share of capital…



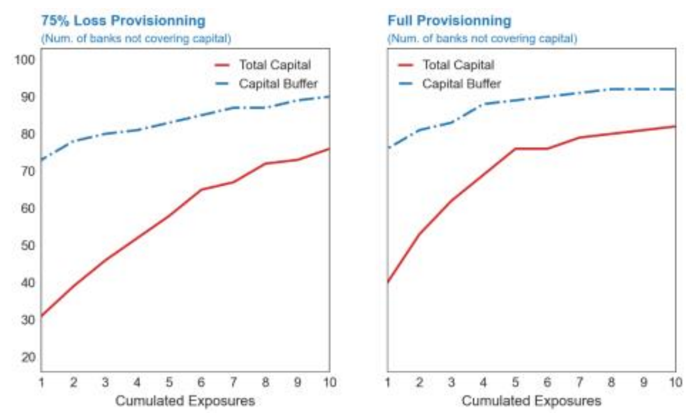
…and despite strong heterogeneity across banks, their largest exposure often exceeds their total capital.



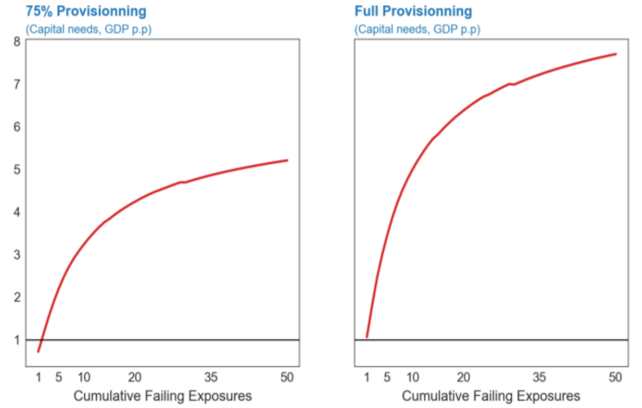
Two-thirds of banks do not comply with the Basel 25 percent risk diversification limit…



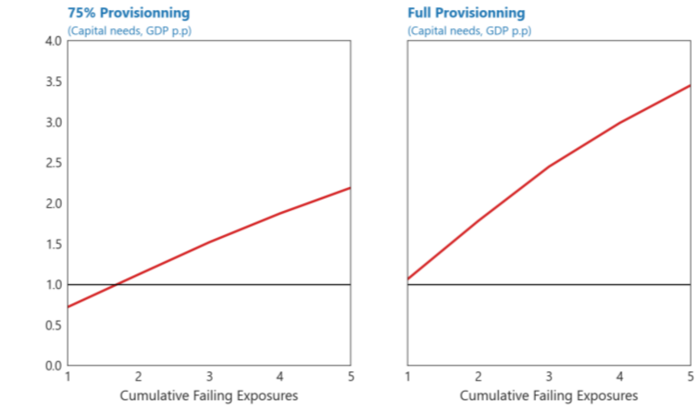
…and most banks do not have adequate capital buffer to absorb a default of their largest exposures.



The additional capital needed to cover the largest exposure is about 1 percent of GDP…



…and the capital needed to cover the top five exposures represents more than 2 percent of GDP.



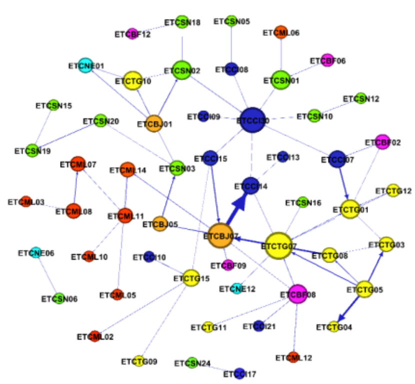
Sources: BCEAO and IMF staff computations

Figure 4. WAEMU: Channels of Interconnectedness

Interbank transactions have intensified, and their concentration has increased.

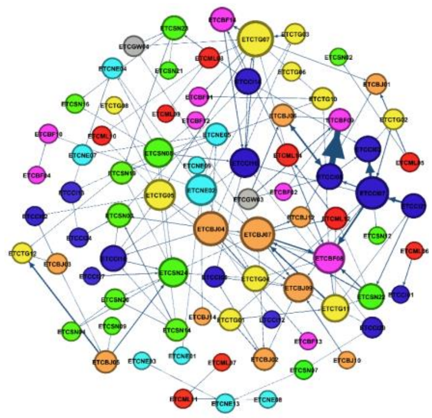
2015

Nods: 55; Edges: 71

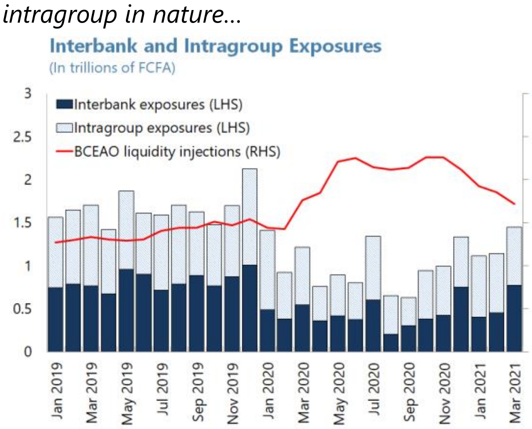


2019

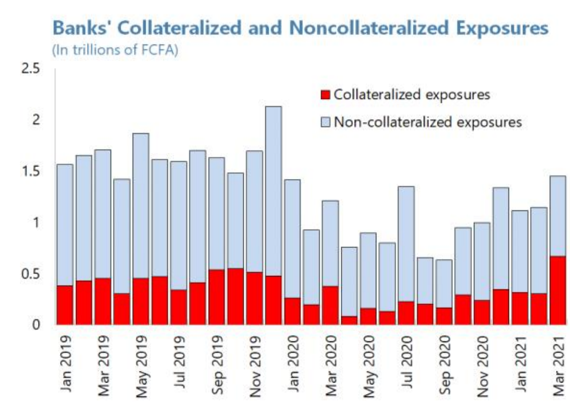
Nods: 81; Edges: 150



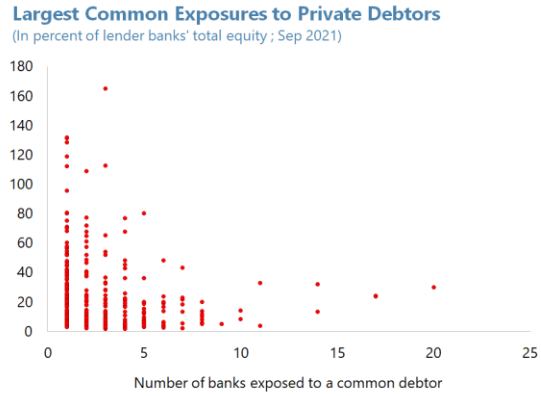
Interbank transactions are mostly cross-border and intragroup in nature…

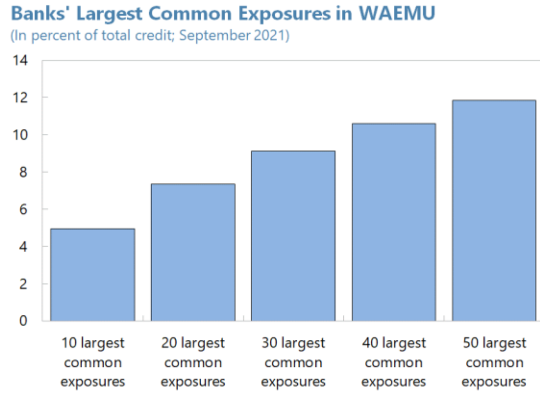


… and remain mostly uncollateralized.



Banks are also interconnected via common exposures.

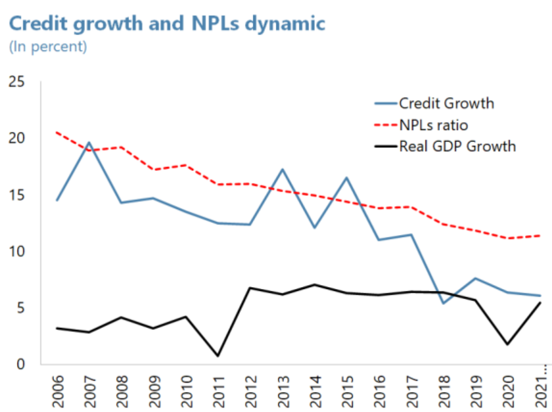




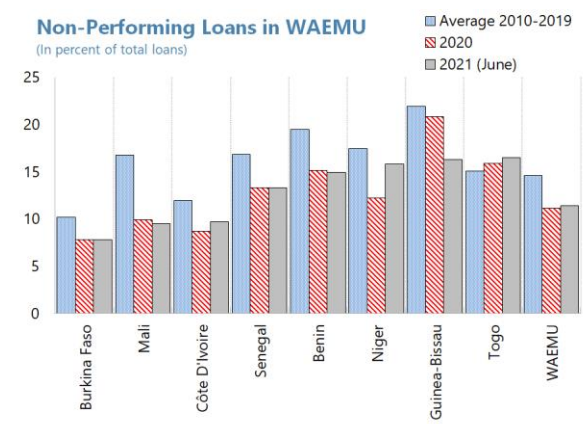
Sources: BCEAO and IMF staff calculations
Note: The color coding of banks in the network charts is as follows: orange (Benin), purple (Burkina Faso), blue (Côte d'Ivoire), grey (Guinea-Bissau), red (Mali), turquoise (Niger), green (Senegal), and yellow (Togo).

Figure 5. WAEMU: Banking Sector Soundness

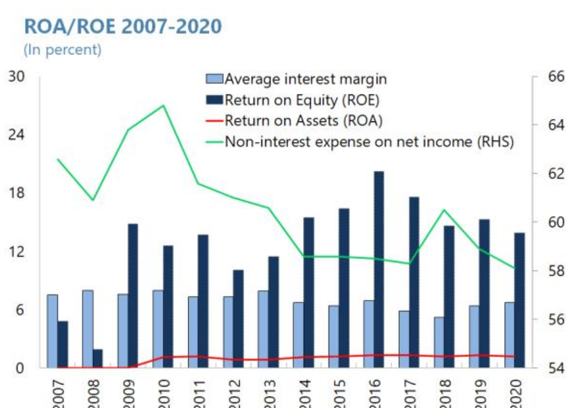
Banks' asset quality has improved over the past decade…



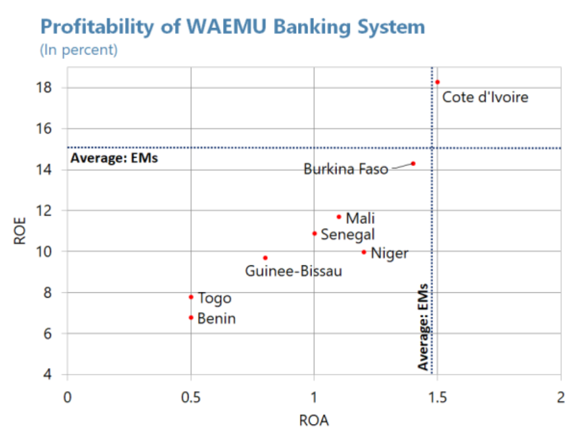
…but NPLs, particularly in some member countries, remain elevated.

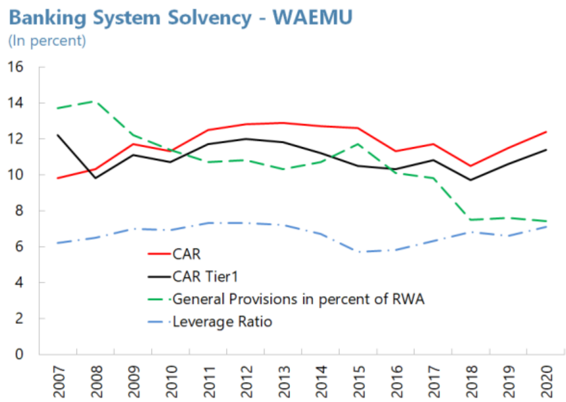
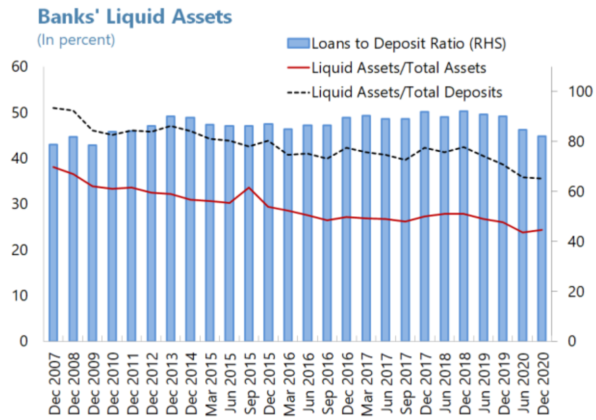


Banks' return on equity has declined since 2016 as a result of stronger competition…



…and banks' profitability—except in Côte d'Ivoire—is lower than in other emerging-market countries.

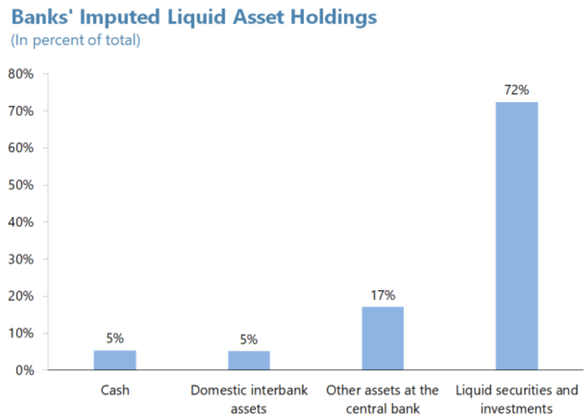


Regulatory capital has been rising; the aggregate capital adequacy ratio reached 12.4 percent in 2020.	*Banks' liquid asset positions have been declining in recent years, albeit with heterogeneity across banks.*
	

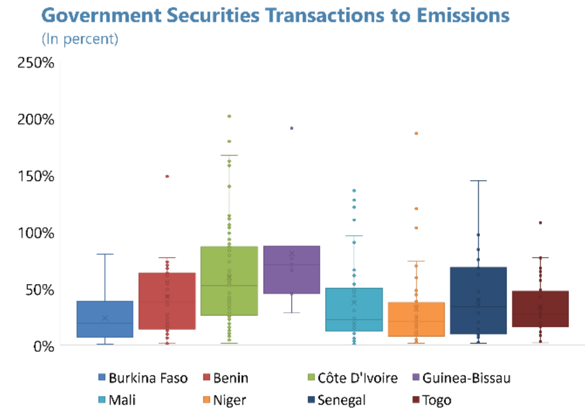
Sources: BCEAO and IMF staff calculations

Figure 6. WAEMU: Banks' Liquidity Profiles

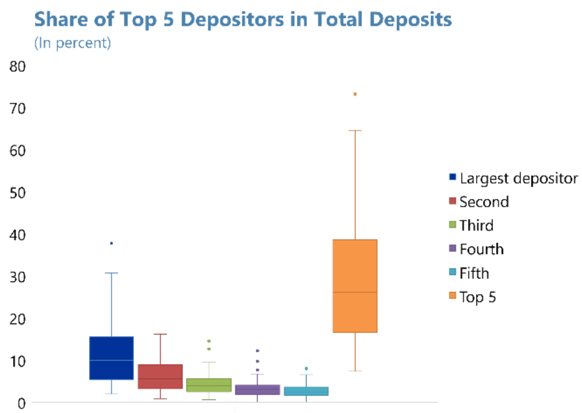
Banks' liquid assets are deemed to be concentrated in government securities…



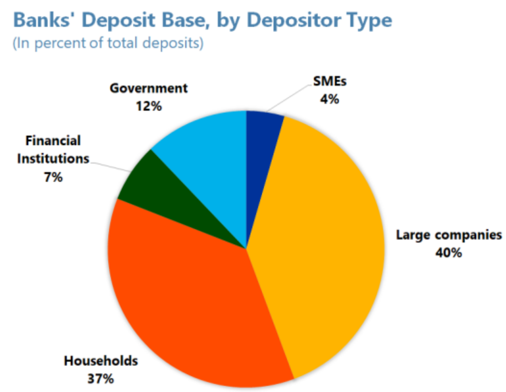
…whose secondary market liquidity is limited.



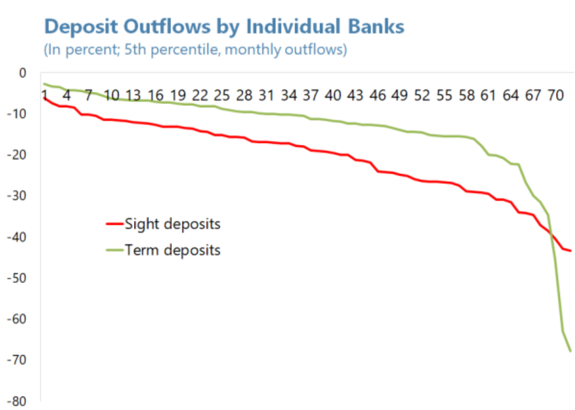
The deposit base is concentrated…



…with a high share consisting of corporate deposits.



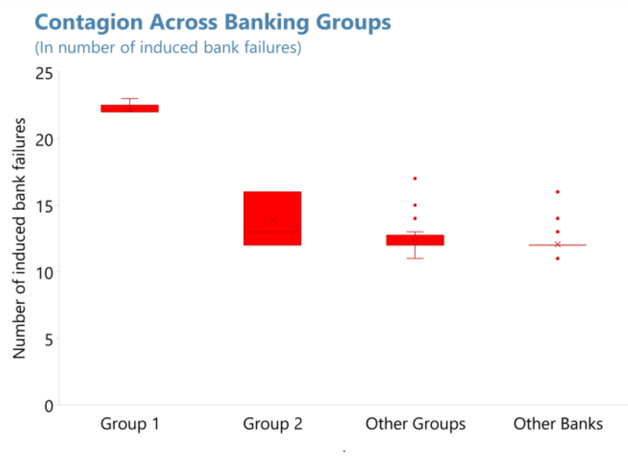
Deposit run-off rates differ widely among banks.



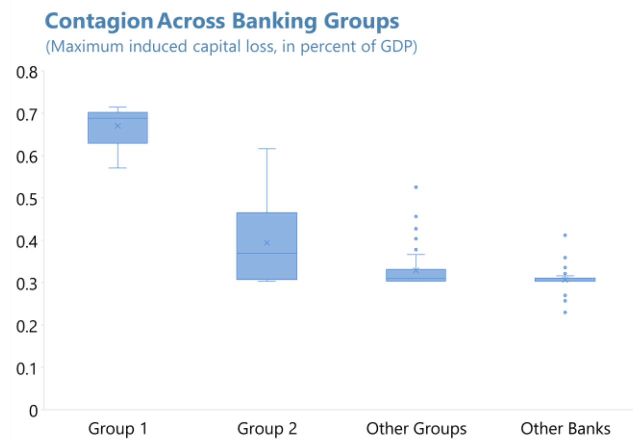
Sources: BCEAO and IMF staff calculations

Figure 7. WAEMU: Interbank Contagion Stress Tests

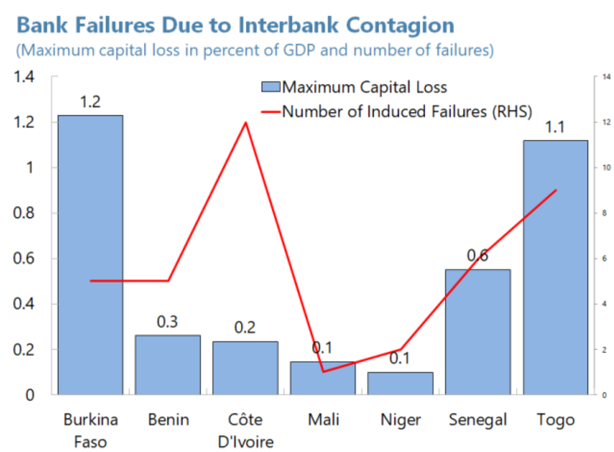
The default of the largest WAEMU banking group would lead to the default of 23 other banks…



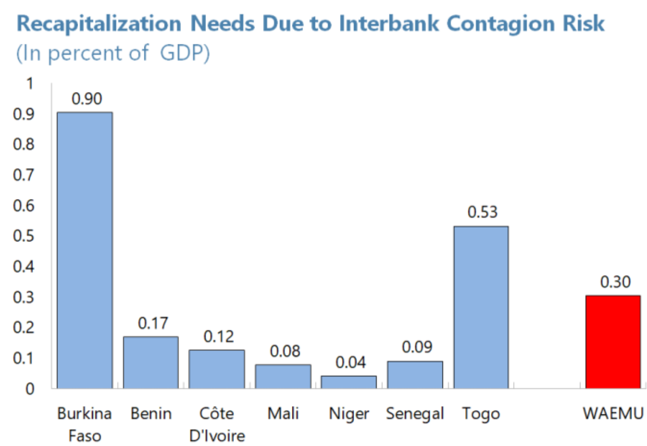
…with an average loss for affected banks of up to 0.7 percent of regional GDP.



Banks in Burkina Faso and Togo are the most exposed to interbank contagion.



The recapitalization needs due to failure of all interbank positions, at 0.3 percent of regional GDP, are modest.



Sources: BCEAO and IMF staff calculations

Note: Groups 1 and 2 are banking groups, the default of whose subsidiaries would be the most contagious and would lead to most significant losses for the regional banking system.

Table 1. WAEMU: Selected Economic and Social Indicators

Social Indicators

GDP		**Poverty (2015 or latest available)**	
Nominal GDP (2020, millions of US Dollars)	159,277	Headcount ratio at $1.90 a day (2011 PPP)	42.7
GDP per capita (2020, US Dollars)	1,218	Undernourishment (percent of population)	12.3
Population characteristics		**Inequality (2015 or latest available)**	
Total (2020, millions)	127.1	Income share held by highest 10 percent of population	30.4
Urban Population (2020, percent of total)	40.4	Income share held by lowest 20 percent of population	6.6
Life expectancy at birth (2019, years)	61.4	Gini index	38.7

Economic Indicators

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			SM/21/5 [2]	Est.	SM/21/5 [2]	Proj.	Projected				
					(Annual percentage changes)						
National income and prices											
GDP at constant prices [3]	6.5	5.8	0.3	2.0	5.4	5.7	6.1	7.0	7.2	6.1	5.8
GDP per capita at constant prices	3.4	2.8	-2.5	-1.0	2.5	2.8	3.1	3.9	4.1	3.1	2.8
Consumer prices (average)	1.0	-0.1	1.7	2.3	1.6	3.3	2.5	1.9	1.9	1.9	1.9
Terms of trade	-1.9	-3.2	18.4	19.4	2.3	-3.1	-1.7	-2.6	-2.2	-0.5	-0.6
Nominal effective exchange rate	4.1	-0.5	...	3.7	...	...	...	...	...	...	...
Real effective exchange rate	2.2	-3.7	...	3.7	...	...	...	...	...	...	...
					(Percent of GDP)						
National accounts											
Gross national savings	18.6	19.4	18.6	20.1	19.4	19.5	20.1	20.7	21.0	21.4	21.5
Gross domestic investment	24.4	24.2	24.0	24.6	25.1	25.4	25.9	26.0	25.5	25.8	26.0
Of which: public investment	6.4	6.1	7.1	7.1	7.1	7.5	7.8	7.4	6.9	7.0	7.1
					(Annual changes in percent of beginning-of-period broad money)						
Money and credit											
Net foreign assets	4.6	6.6	0.3	0.7	-0.5	2.5	-0.1	0.7	1.8	1.3	1.0
Net domestic assets	7.9	3.7	10.1	15.9	7.4	5.5	8.0	8.0	7.2	6.7	6.7
Broad money	12.5	10.3	10.4	16.5	6.9	8.0	8.0	8.7	9.0	8.0	7.7
Credit to the economy	5.9	4.2	5.6	4.1	3.3	2.6	2.5	3.8	4.6	3.9	3.8
					(Percent of GDP, unless otherwise indicated)						
Government financial operations											
Government total revenue, excl. grants	14.6	15.6	14.7	15.2	15.5	15.3	15.9	16.3	16.5	16.9	17.2
Government expenditure	19.7	19.8	23.1	22.9	22.3	22.9	22.4	21.6	21.0	21.2	21.4
Overall fiscal balance, excl. grants	-5.0	-4.1	-8.4	-7.6	-6.9	-7.6	-6.5	-5.4	-4.4	-4.3	-4.2
Overall fiscal balance, incl. grants	-3.3	-2.3	-5.9	-5.7	-4.9	-5.9	-4.7	-3.8	-3.0	-3.0	-3.0
External sector											
Exports of goods and services [4]	19.2	19.6	17.0	18.7	18.1	18.9	19.9	19.7	20.3	20.2	19.8
Imports of goods and services [4]	25.5	25.4	23.4	24.2	24.3	25.8	26.6	25.7	25.4	25.0	24.8
Current account, excl. grants	-6.7	-6.1	-6.9	-5.9	-6.8	-6.8	-6.8	-6.3	-5.4	-5.3	-5.3
Current account, incl. grants	-5.6	-4.9	-5.4	-4.5	-5.7	-5.9	-5.9	-5.3	-4.5	-4.5	-4.6
External public debt	28.0	30.2	32.9	33.6	33.3	36.4	35.1	33.5	31.8	30.3	29.4
Total public debt	43.4	45.5	48.5	52.1	49.6	55.6	55.5	54.5	52.7	51.5	50.8
Broad money	33.0	34.3	37.1	38.6	37.1	38.6	...	...	...	...	...
Memorandum items:											
Nominal GDP (billions of CFA francs)	83,301	88,519	90,231	91,545	96,476	98,891	106,762	116,024	126,456	136,513	147,001
Nominal GDP per capita (US dollars)	1,217	1,190	1,198	1,218	1,322	1,332	1,394	1,494	1,600	1,692	1,784
CFA franc per US dollars, average	555	585.9	...	574.8	...	...	...	...	...	...	...
: Gross international reserves [5]											
In months of next year's imports (of goods and services)	4.6	5.6	5.5	5.5	5.0	5.8	5.5	5.3	5.3	5.2	5.0
In percent of current GDP	10.3	11.7	...	12.8	...	13.9	12.9	12.2	11.9	11.5	11.0
In percent of the BCEAO's sight liabilities	79.6	81.4	...	77.3	...	86.4	89.4	84.2	81.9	79.2	76.1
In millions of US dollars	14,853	17,547	19,275	21,764	19,497	24,228	24,898	25,827	27,626	29,035	30,043

Sources: IMF, African Department database; World Economic Outlook; World Bank World Development Indicators; IMF staff estimates and projections.

[1] All projections presented in this staff report were prepared in the first half of December 2021 and do not incorporate any further developments.

[2] Shows data from the IMF Country Report No. 21/49, published on January 21, 2021 (Board document number SM/21/5).

[3] The acceleration in GDP growth in 2023 is due to the start of production of large hydrocarbon projects in Niger and Senegal.

[4] Excluding intraregional trade.

[5] Projections for 2021 include the 2021 SDR allocation which is equivalent to US$2,327 million, or 0.6 months of imports and 9.6 percent of the BCEAO's sight liabilities.

Table 2. Managing COVID-19's Impact on WAEMU: Milestones and Measures

March 31, 2020	The banks' refinancing demand was fully met at the policy rate to respond to the increase in precautionary liquidity demand.
April 28 to May 15, 2020	Member countries issued Treasury bills with a maturity of 3 months at a rate capped at 3.5 percent. The BCEAO set up a special three-month refinancing window at 2.5 percent for three months for these bills.
June 24, 2020	The policy rate was reduced from 2.5 percent to 2 percent.
June 26, 2020	A one-year extension was agreed for the transposition of Basel II and III rules. The decision was taken by the CM of the Union after the BCEAO proposed it on June 26, 2020.
Expired in December 2020	The BCEAO authorized the banks to place in a specific account, under the category of performing loans, any performing loans that had been rescheduled, and not place them under past due loans.
Over the course of 2020	Various WAEMU countries, in cooperation with the banking sector, introduced partial guarantees on credits for companies impacted by the coronavirus crisis.
Over the course of 2020	The BCEAO agreed with the West African Development Bank (BOAD) to establish a facility permitting the banks to obtain medium-term financing against loans granted to companies affected by the crisis.
Over the course of 2020	The BCEAO provided CFAF 25 billion, and the WAEMU Commission CFAF 15 billion, to the BOAD's interest subsidy mechanism to enable it to grant CFAF 120 billion in concessional loans to member countries (CFAF 15 billion per country) at a subsidized interest rate.
Over the course of 2020	The BCEAO took several measures to promote electronic payments to mitigate the impact of the Covid-19 pandemic: -Opinion No. 004-03-2020 relating to measures to promote electronic payments in the context of the fight against the spread of COVID-19; -Opinion No. 009-05-2020 extending the measures to promote electronic payments in the context of the fight against the spread of COVID-19.

Sources: BCEAO and IMF staff calculations

Table 3. WAEMU: Implementation of the 2008 FSAP Recommendations

Objectives	Recommendations	Status	Comments
Enhancing the soundness of the banking system	Validation and monitoring of plans to increase banks' and financial institutions' minimum capital (first phase) and a proposed timetable for future actions (second phase)	Completed	The first phase of raising the minimum capital requirement was completed in 2010. The second phase, to ensure minimum social capital of CFAF 10 billion for banks and CFAF 3 billion for financial institutions of a banking nature, was achieved in July 2015. Administrative measures and disciplinary sanctions were announced for institutions failing to comply with minimum share capital and its representation by core capital.
	Definition of minimum solvency rules applicable to microfinance institutions (MFIs)	Completed	The prudential documents governing microfinance institutions (MFIs) came into effect on August 30, 2010. The minimum solvency rules applicable to the MFIs in the WAEMU are set forth in Directive 010/08/2010 on the prudential rules applicable to the MFIs of the WAEMU Member Countries, and Directive 016-12-2010 on the financing of fixed assets and holdings by the microfinance Institutions.
	Implementation of an increase in the minimum capital of banks and financial institutions	Partially completed	The credit institutions, with few exceptions, have complied with the regulatory measure to raise minimum capital.
	Revision of the prudential rules as part of the transition to Basel II	Completed	The regulatory decision on the Basel II/III implementation by credit institutions and financial companies in the WAEMU was introduced on January 1, 2018 (N°013/24/06/2016/CM/UMOA). It was complemented by a regulatory decision on the consolidated supervision of parent company credit institutions and financial companies in the WAEMU (N°014/24/06/2016/CM/UMOA) and by Banking Commission Circulars on governance, risk management, compliance, and other matters.
Improving the supervision framework for banks and microfinance institutions	Adoption of the Institutional Reform of the WAEMU and the BCEAO, with specific attention to enhancing the independence of financial supervision authorities	Completed	All member countries have adopted the basic texts of the Institutional Reform, effective April 1, 2010. In addition, the annex to the Convention governing the CBU was revised in 2018 to include a banking crisis resolution framework.
	Modernization of systems for collecting and processing financial and prudential information	Completed	The BCEAO has set up a credit reporting bureau, BIC, that collects credit risk information. The BIC—Creditinfo West Africa—has been operating across the Union since February 2016. Currently, 231 entities provide data to the BIC, including 143 credit institutions, 67 microfinance institutions, and 21 major invoicing companies.
	Improving mechanisms to prevent difficulties arising for banks and microfinance institutions	Completed	The 2010 institutional reform strengthened the CBU's enforcement capacity and the banking resolution framework. The supervisor improved its bank monitoring capacity via the development of a rating system. The BCEAO now publishes an annual report on banks' financial condition. The regulatory framework for microfinance institutions was strengthened, and an early-warning system was put in place.
	Adjustment of banking supervision methods to the	In progress	The regulatory framework is aligned with the Basel principles for efficient supervision. In accordance with the

	nature and profile of banking risks, from compliance to risk-based supervision		risk-based framework, the regulator introduced a rating system and risk mapping. A stress-testing exercise is in place but needs to be enhanced. Finally, banking supervision benefited from IT development that has enabled the automation of a number of tasks.

Table 3. WAEMU: Implementation of the 2008 FSAP Recommendations

Objectives	Recommendations	Completion	Comments
Improving the supervision framework for credit institutions	Preparation of a new prudential framework for microfinance institutions based on the new regulatory framework	Completed	A specific accounting framework was introduced for microfinance institutions (Directive 25-02-2009). Directives 10-08-2010 and 16-12-2010 specify the prudential rules and standards applicable to microfinance institutions.
	Continued implementation of procedures for anti-money laundering and combating the financing of terrorism in the WAEMU member countries	Completed	The CM, in July 2015, adopted the regulatory framework establishing anti-money laundering and combating the financing of terrorism, and in 2017 the BCEAO issued four circulars establishing the practical implementation of the regulatory framework.
	Establishment of a consolidated regulatory framework to provide an overview of the solvency of banking groups	Completed	Consolidated supervision is in operation. The regulatory framework applies to parent companies and their subsidiaries. The supervisor (i) publishes each year a list of the banks that are being supervised on a consolidated basis; and (ii) organizes yearly meetings with the relevant foreign supervisors.
Improving governance	Full implementation of banking and microfinance regulation	Completed	The new institutional reform documents specifically strengthen banking and microfinance institutional regulation and the powers of the Banking Commission in relation to the regulatory and legal requirements applicable to credit institutions and MFIs. An update is provided every three months to the authorities of the Union by the BCEAO and the WAEMU Banking Commission for their periodic meetings.
	Formalization of the consultation framework between regulators and supervisors	Completed	A Financial Stability Committee, created in 2010, represents the consultation framework for the regulators and supervisors of the Union, including national governments, the BCEAO, the banking commission, and the market regulator.
Fostering the development of financial markets	Setup of a system of primary dealers in treasury securities (SVTs)	Completed	The SVT system was introduced in 2013, and primary dealers now operate in each member country. A project is under way to make the system more efficient.
	Issuance of government securities via competitive tender	Completed	An automated system for the issuance and management of government securities (SAGETIL-UMOA) was introduced in 2014.
	Simplification of the management of government securities by keeping them in a single depository	Partially completed	Custody and securities management procedures have improved notably, but the market remains segmented between tenders and syndications because the securities issued via the different allotment methods are not fungible owing to the presence of two different depositories.
	Production of reliable annual issuance calendars to raise the visibility of government security issuances on the market	Completed	In coordination with the National Treasuries, the UT now publishes and updates the government issuance calendars quarterly.

	Increase in market liquidity by formalizing the conceptual framework for repurchase facilities	Completed	The legal framework for repurchase facilities was formalized in 2013.
	Reduction of illiquidity risk via the introduction of intraday advances	Completed	The BCEAO introduced intraday advances in 2016. The facility is well known by market participants and is used occasionally.
Sources: BCEAO and IMF staff calculations			

Table 4. WAEMU: Financial Stability Indicators

	2016	2017	2018 [1]	2019	2020
	(Percent, unless otherwise indicated)				
Solvency ratios					
Regulatory capital to risk weighted assets	11.3	11.7	10.5	11.5	12.4
Tier I capital to risk-weighted assets	10.3	10.8	9.7	10.6	11.4
Provisions to risk-weighted assets	10.1	9.8	7.5	7.6	7.4
Capital to total assets	5.8	6.3	6.8	6.6	7.1
Composition and quality of assets					
Total loans to total assets	52.2	54.1	55.7	56.2	52.3
Concentration: loans to 5 largest borrowers to capital[2]	101.9	89.8	82.6	86.1	72.0
Sectoral distribution of loans					
Agriculture	3.2	3.9	4.6	3.0	3.0
Extractive industries	1.6	1.5	1.7	1.7	1.8
Manufacturing	15.5	16.2	15.1	14.3	13.0
Electricity, water and gas	4.9	5.6	5.6	4.6	4.7
Construction	10.8	9.8	10.6	11.2	10.2
Retail and wholesale trade, restaurants and hotels	26.7	26.8	27.7	25.9	26.5
Transportation and communication	9.9	11.6	10.5	11.3	10.8
Insurance, real estate and services	7.2	7.2	6.8	7.2	8.4
Other services	20.1	17.4	17.5	20.8	21.7
Gross NPLs to total loans	13.8	13.9	12.4	11.4	11.0
Provisioning rate	65.5	63.6	65.3	63.3	67.2
Net NPLs to total loans	5.2	5.5	4.7	4.5	3.9
Net NPLs to capital	47.2	48.0	38.2	38.3	29.0
Earnings and profitability					
Average cost of borrowed funds	2.9	2.5	2.4	0.7	0.9
Average interest rate on loans	9.8	8.4	7.6	7.1	7.6
Average interest margin[3]	6.9	5.9	5.2	6.4	6.7
After-tax return on average assets (ROA)	1.3	1.3	1.2	1.3	1.2
After-tax return on average equity (ROE)	20.2	17.6	14.6	15.3	13.9
Noninterest expenses/net banking income	58.5	58.3	60.5	58.9	58.1
Salaries and wages/net banking income	25.6	25.0	25.9	24.8	25.1
Liquidity					
Liquid assets to total assets	27.1	27.3	27.8	26.0	24.4
Liquid assets to total deposits	42.3	42.3	42.4	38.7	35.5
Total loans to total deposits	89.5	92.0	92.2	90.2	82.2
Total deposits to total liabilities	64.1	64.5	65.7	67.1	68.7
Sight deposits to total liabilities[4]	34.4	34.7	35.1	35.8	37.1
Term deposits to total liabilities	29.7	29.8	30.6	31.4	31.5

Source: BCEAO.

[1] First year reported in accordance with Basel II/III prudential standards and the new banking chart of account.

[2] Indicators do not account for the additional provisions required by the WAEMU Banking Commission.

[3] Excluding tax on bank operations.

[4] Including saving accounts.