

THIRD CONFERENCE OF MICROFINANCE ON THE 'NEW OPTIONS FOR
RURAL AREAS IN AFRICA'

*THE ROLE OF THE CENTRAL BANK OF THE WEST AFRICAN STATES (BCEAO) IN
REGULATING AND SUPERVISING OF THE MICROFINANCE SECTOR IN UMOA,
REPORT AND PERSPECTIVES'*

COMMUNICATION PLAN

LEGAL AND INSTITUTIONAL FRAMEWORK OF THE MICROFINANCE IN THE
WEST AFRICAN MONETARY UNION (UMOA)

SUPERVISION OF THE MICROFINANCE SECTOR

REPORT AND PERSPECTIVES INTRODUCTION

- The West African Monetary Union (UMOA)
- Eight member states: Benin, Burkina, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo
- 3.5 million km²
- 80 million people
- Common Central Bank: the BCEAO
- Central Bank of the West African states
- Common currency: the Franc CFA
- Official exchange rate in the whole Union of States

LEGAL AND INSTITUTIONAL FRAMEWORK OF THE MICROFINANCE IN THE
WEST AFRICAN MONETARY UNION (UMOA)

1.1 Legal framework applicable to decentralized finance in UMOA

- Law on regulations of mutualist institutions or savings and credit cooperatives (IMCEC) and its application decree
- Outline agreement concerning the non constituted institutions under mutualist or cooperative form
- Instructions enacted by the Central Banks

Other legal texts to which the SFD are subjected:

- the outline law on definition and suppression of usury which fixes for SFD, the rate at 27%;
- law on the fight against capital laundering in the UMOA member states;

- regulations concerning payment systems which allow the MFI to issue, among other things, payment and withdraw cards;
- the OHADA Uniform Act

1.2 Characteristics of the regulation

- regulations of microfinance within UMOA contains a certain number of rules which are particularly advantageous for the MFI;
- in pursuance of the legal provisions, the supervising authority of the SFD is the Ministry of Finance competent in issuing permission to operate and supervise.
 - ✓ Putting in place within the Ministry of an entity: the Ministerial Monitoring structure (SMS) for the control and monitoring of the sector

1.3 General and institutional provisions: role of the BCEAO

The attributions of both the Central Bank and the Banking Commission in pursuance of the legislation in force relate to the following points:

- participation in the procedure of granting permission to operate to financial organs and structures operating on contract;
- control according to Articles 60, 62, 63, 64, 65 of the law and 4 of the outline convention;
- supervision of financial organs (Articles 67 of the law)

II. SUPERVISION OF THE MICROFINANCE SECTOR WITHIN UMOA

Organizational difference between the banking sector and the microfinance sector in as far as supervision is concerned:

- ✓ Bank supervision is incumbent on supranational structures (BCEAO, UMOA Banking Commission);
- ✓ Supervision of SFDs is the responsibility of the Ministry of Finance.

Nevertheless, the supervisory operation of the SFDs is completed through measures of delegated supervision:

- control structures are given the responsibility to control affiliated institutions;
- the BCEAO and the Banking Commission have primacy in controlling the control structures and structures under the outline convention from which they get copies of financial reports and annual reports.

II. SUPERVISION OF THE MICROFINANCE SECTOR WITHIN UMOA

2.1. The elements of supervision

- Preparation of operation application files: legal entry door to the profession, the procedure of preparing operation application files bears is of vital importance to the viability of the microfinance.
- The examination of operation application files should mainly concern:
 - Morality, expertise of the management and that of human resource as well as appropriateness of the human, material and technical means to the targeted objectives;
 - The organizational structure and organ texts (statutes, internal rules, procedure manuals, etc);
 - the capacity of the institution to conform to rules and regulations (production and transmission of within prescribed time frames of all financial information for the control structures, capacity to control the affiliated branches as well as scrutiny of affiliation contracts);
 - Credit policy, business plans financial projections as well as existence of the market to guarantee viability of the institutions.

Internal control within SFDs

Legal measures governing SFDs require putting in place of an appropriate control measure within each institution.

In addition, any union, federation or confederation is supposed to ensure strict control at all levels of all institutions and financial organs under them (Article 57 of the law). They are also required to carry out, at least once a year, inspection of all institutions and financial organs under them.

External control of the SFDs

External controls by the Ministerial Monitoring structures (SMS) should mainly enable to evaluate the following elements:

- Financial policies and practice as well as reliability of the accounts systems;
- Respect of the legal requirements governing SFDs;
- Practice in assessment of credit risks;
- Efficiency of internal controls and security;
- Cooperative and mutualist policies and practices.

2.2. The role of the BCEAOI and of the Banking Commission

Intervention of the BCEAO and of the Banking Commission in the area of on-spot controls of the SFDs has to be prompted by the Ministry of Finance. However, these two supranational institutions have the right over control of the confederations and federations (Article 63 of the law), basing on the latter's annual reports.

On the whole, supervision is based on;

- Adequate supervision of operation application files;
- Quality information on the sector;
- Efficient internal control measures;
- Effective carrying out of on-spot controls by control structures;
- Distance verifications of the Supervision Authorities carried out mainly basing on the internal control information and reports of the SFDs;
- Targeted inspection intervention by the Supervision Authorities

III. REPORT AND PERSPECTIVES

3.1. Evaluation of the operation system

- Fast expansion of the microfinance sector
- 7.6 million beneficiaries
- 700 SFDs, 4200 services points
- 357 billion CFA francs (544.2 million euros) in deposits
- 325 billion CFA francs (495.4 million euros) in credit

Access indicators

Indicators of financial intermediation

Shortfall identified in the sector

Internal factors (SFDs)

- Inconsistence in management information systems, resulting partly, in the absence of a computerized guiding pattern in most institutions;
- Failure by the SFDs to observe legal and regulatory requirements in force;
- Internal control weakness within institutions (insufficient enrolment, little or lack of following recommendations made at the end of each monitoring);
- Problems related to financial intermediation of the SFDs, particularly, weaknesses in evaluation procedures of credit files;

External factors (the SMS)

- Little monitoring by the supervision authorities;

- SMS: too much transfers or movement of officers, staff shortage, status insecurity;
- Lack of training: weakness in instruction by the authorities.

Assessment of the of BCEAO and of the Banking Commission

In pursuance of the current laws, the BCEAO and the Banking Commission do not have direct responsibilities in monitoring of the MFIs.

Financial and accounts documents received from control structures and from other sources: used to analyze the systems operation within the sector.

Delays in reception and making the most of financial reports, which in turn, does not enable real control of the SFDs.

Out of these shortcomings, almost a quarter (24.6%) of the UMOA SFDs have, structurally speaking, deficit results and a deterioration tendency of the institutions' portfolio has been observed since 2002.

Thus, a big number of microfinance institutions are not viable today. Some of them indeed require multiform support to make a '*limp of the viability line*'.

Perspectives: Implementation of the **Regional Support Program to Decentralized Finance** (PRAFIDE) which was elaborated by the BCEAO

3.2. Perspectives

The PRAFIDE:

- It aims to bringing about a solid decentralized financial system available to as many people as possible, highly performing and harmoniously articulated with the other components of the Union's financial sector;
- It covers 2005-2009 period.

Major lines of intervention for the PRAFIDE

- Improvement of the legal framework specific to microfinance;
- Improvement on financial information of the sector;
- Efficiency building of the internal and external supervision mechanisms;
- Capacity building for the officers under Control Authorities;
- Further consultations with all those concerned in order to bring about a better synergy of actions to carry out.

Improvement of the legal and regulatory framework

- Strengthening of the institution monitoring;

- Improvement of governance within the institutions, particularly those organized under cooperatives and mutualists;
- Protection of the SFDs clientele;
- Improvement on the efficiency of SFDs with emphasis on the modernization of their management instruments.

If these arrangements were adopted, they would promote, among others:

- Intervention of the Central Bank and of the Banking Commission in the control of the SFDs;
- Establishment of new management tools (risk centers and others);
- Strengthening of the prudential operation by putting in place new standards (capitalization) and procedures (compulsory certification of accounts and creation of a security fund for the preservation of deposits);
- Extension of the area of operation for the new regulations to cover the SFDs, and subsequently, instauration of a single system of operation authorization (approval);

PERSPECTIVES

3.3 National policies of microfinance

- In addition to PRAFIDE, the UMOA member states are engaged in a process of promotion and consolidation of microfinance through the adoption of national policies
- 6 UMOA countries have elaborated action programs to promote the sector (Benin, Burkina, Mali, Niger, Senegal and Togo)
- The national strategies aim to lift specific constraints in each country. The PRAFIDE is concerned with issues common to all countries (regulations, establishment of an information center, capacity building and support).

CONCLUSION

On the whole, ten years since regulations were implemented, the microfinance situation is rather satisfactory. There is, however, need to improve and adapt, in order to stay in line with the evolution of the sector.

I thank you for your kind attention