



TOWARDS COMMON BANKING SUPERVISION IN WAMZ ¹ **— THE WAY FORWARD**

By

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for the West African Monetary Institute (WAMI)

Accra
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TABLE OF CONTENTS

1..... Structure of the financial systems and supervisory resources1

2. Compliance with the Basel Core Principles for Effective Banking
Supervision (BCPs)2

3. Regulatory Challenges on the Road to WAFSA2

4. Institutional Arrangements for WAFSA3

5. An Action Plan For Harmonization And Establishment Of WAFSA4

6. Areas of Policy Decision by WAMZ Authorities5

ANNEX

Towards Common Banking Supervision in WAMZ — The Way Forward, by Carl-Johan Lindgren (Consultant) and Osana Jackson Odonye (WAMI), supported by FIRST Initiative (London)

The report seeks to (a) take stock of progress towards meeting international standards for banking regulation and supervision in the West African Monetary Zone, (b) develop an action plan for harmonizing supervisory rules and practices and (c) present an agreed upon institutional framework for establishing a zonal West African Financial Supervision Authority (WAFSA).

1. Structure of the financial systems and supervisory resources

A comparison of the size and complexity of the financial systems in WAMZ at end-2002 shows 1,562 licensed financial institutions, of which 125 are commercial banks and the rest are other financial institutions, including some 400 community banks, over 600 foreign exchange bureaus and 167 insurance companies. About 60 percent of all institutions operate in Nigeria. Commercial banks dominate financial intermediation with 92 percent of total financial assets or the equivalent of USD 22.1 billion at year-end 2002. Nigeria accounted for 87 percent of total commercial banks assets, Ghana had a share of 10 percent, while the three smaller countries combined accounted for about 3 percent.

Relative to the size of each country's economy, as measured by 2002 GDP, the commercial banking systems range in size from 11 percent in Guinea to 41 percent in Nigeria. Outstanding deposits at end-2002 amounted to 19.4 percent of GDP for WAMZ as a whole and, in absolute terms, deposits ranged from the equivalent of USD 21 per inhabitant in Sierra Leone to USD 84 per inhabitant in Nigeria. In WAMZ, nonperforming loans (NPLs) are not a major problem at this time; at end-2002, NPLs averaged 25 percent of total loans but were only 3 percent after loan loss provisions.

Bank ownership is mainly private, both domestic and foreign, except in Sierra Leone, where two state-owned banks still dominate. Foreign owned banks, which must be incorporated as subsidiaries in all the countries, dominate in The Gambia, Ghana and Guinea, while most banks in Nigeria have domestic private owners. There are 11 foreign banks operating in WAMZ, if each bank operating in more than one country is counted as one. Six banks are active in more than one WAMZ jurisdiction but their small total market shares do not make them systemically important.

Banking supervision in all WAMZ countries is the responsibility of their central banks, which also license and supervise other financial institutions (OFIs). Supervision of insurance companies is the responsibility of the central banks of The Gambia and Guinea and of independent insurance commissions in Ghana, Nigeria and Sierra Leone. The Nigeria Deposit Insurance Corporation (NDIC) also supervises banks. There are altogether over 900 financial sector supervisors in the WAMZ. The five central banks have 604 supervisors: 385 for commercial banks, 211 for OFIs and 8 for insurance companies. The insurance commissions of Ghana and Nigeria together employ some 150 supervisors and the NDIC a similar number.

The total cost of financial sector supervision in the WAMZ is estimated at the equivalent of USD 22.4 million. About two thirds of this amount is spent by the central banks and financed out of central bank income/profits. NDIC spends another USD 4.5 million, which is financed from the yield of the deposit insurance fund. The two insurance commissions together spend about USD 3 million, financed largely through a fee on insurance companies' premium income but also budget transfers; Guinea collects a fee on insurance company assets.

2. *Compliance with the Basel Core Principles for Effective Banking Supervision (BCPs)*

The status of prudential regulations and supervision in the WAMZ is analyzed based on assessments (by external assessors or the Consultants) of each country's compliance with the 30 BCPs. The analysis shows that the countries complied or were largely compliant with most applicable BCPs (some principles are not applicable in 3-4 countries.) Countries did not comply with or were materially noncompliant with an average of 10 BCPs, mainly in areas like information sharing, dealing with market and other risks, prevention of money laundering and remedial measures.

All WAMZ countries can be expected to comply substantially with all the BCPs by mid-2004. They are introducing extensive legal and regulatory changes to bring their rules and practices into compliance with the essential criteria of the BCPs; these efforts are covered in detail in the text and appendix tables. In areas where full compliance depends on supervisory resources and the development of practices and procedures in the banking industry, progress may be constrained by perennial problems of scarce resources. For the countries to get the full benefits of their reform efforts, it is proposed that a full **WAMZ-wide assessment of the BCPs be undertaken in mid-2004 using the same external assessors for maximum comparability.**

Some weaknesses will remain in all the countries even after these efforts have been implemented, especially in systems to measure, monitor and control market and other risks, and in consolidated analysis and supervision. The former will be much dependent on getting individual banks to put in place proper practices, while the latter issue only applies to Nigeria at this stage. In both areas, the development of basic concepts and methods on a WAMZ-wide basis would help to increase compliance with standards for all the countries involved. Common efforts will also be useful in the interpretation and application of the new "Basel 2" Capital Accord.

3. *Regulatory Challenges on the Road to WAFSA*

Combining one overwhelmingly large financial system with three small systems involves a number of challenges. It is necessary to make sure that harmonization does not lead to a watering down of efforts to strengthen prudential rules and practices in the larger countries and at the same time raise standards of laggard countries. Specific areas for harmonization include prudential rules and ratios: loan valuation; accounting, reporting and disclosure; loan recovery; and policies for dealing with problem banks. In all these areas system size does not matter for the principles involved although it may, of course, matter for the process of implementation.

Key areas for harmonization include (i) prudential ratios for capital adequacy, liquidity, foreign exchange exposure and large exposure; (ii) monetary policy instruments like legal reserve requirements and access rules to central bank credit; (iii) rules for the implementation of new anti-money laundering laws; (iv) a common accounting plan based on those used in Nigeria and Ghana (Guinea is considering a plan based on the WAEMU model); (v) detailed reporting formats to set a basis for strengthened off-site monitoring and more uniform supervisory practices; (vi) disclosure requirements; (vii) rules and practices for loan valuation, loan loss provisioning, interest suspension and treatment of collateral; (viii) approaches for dealing with problem banks, including a graduated scale of corrective measures; and (ix) loan recovery and foreclosure rules and procedures. Supervision is likely to be strengthened by harmonized regional rules and peer pressure for actions based on agreed rules and policies.

Minimum capital requirements seem an area where countries will need to maintain country specific requirements. Nigeria does not want to reduce its entry capital requirement equivalent of USD 17 million, while banks in the smaller systems cannot be expected to observe the high Nigerian or even Ghanaian requirements. It seems feasible to maintain separate requirements, as there is little demand for cross-border entry and all entrants presently are required to incorporate as local subsidiaries.

4. *Institutional Arrangements for WAFSA*

WAFSA should be set up as an independent agency in close association with the West African Central Bank (WACB). In the workshop, the heads of banking supervision considered the advantages and disadvantages of establishing WAFSA within the WACB or setting it up as an independent agency and various intermediate options. They also considered the institutional arrangements of other regional supervisory bodies such as those in WAEMU, the Eastern Caribbean Union and the European Union. There was strong agreement on an institutional structure that would combine independence with close association with the WACB. The similarity of such a structure to the Banking Commission and BCEAO in WAEMU—potential future merger partners—was also considered important.

WAFSA should have its own Chief Executive Officer (CEO) and an independent board chaired by the Governor of the WACB. This was considered an arrangement that would give policy and operational independence to WAFSA while maintaining close cooperation with the WACB. The CEO of WAFSA should be appointed by the same authority as the Governor of the WACB. There is an urgent need to develop a legal proposal for WAFSA that will complement the draft law for WACB presently under consideration. The WAFSA law would need to cover issues such as its objectives and organization, composition of its board, appointment, tenure and dismissal of directors and principal officers, role of central and national offices, financing arrangements, etc.

WAFSA is not considered viable politically or operationally without the WACB. The two are considered complementary. The target date for the establishment of WAFSA should thus be set to coincide with the July 1, 2005 target date for the establishment of the WACB.

To operate independently and efficiently WAFSA would need to have independent financing sources. Consideration should be given to the introduction of a supervision fee to be levied on all supervised banks and other financial institutions in relation to their total assets. This form of financing has won increasing acceptance world-wide in recent years. Based on 2002 data, an annual fee of 0.07 percent would cover central bank supervision costs in full. Doubts expressed about the feasibility of such a fee can be dealt with: a fee can be collected easily and its effects on bank costs can be mitigated through other measures. The proposed fee could be lowered through transfers from the WACB or the introduction of licensing fees.

Supervision of insurance should stay outside WAFSA, at least initially. There are no compelling reasons at present for an all-inclusive supervisory authority to cover banking, insurance and securities markets. Doing so would only complicate the establishment of WAFSA. At the same time, the law establishing WAFSA should allow for the future inclusion of insurance and possibly other subsectors. As a transitory arrangement, WAFSA should include national “desks” for the supervision of insurance companies in The Gambia and Guinea, which do not have insurance commissions, and perhaps also in Sierra Leone, which does not have an operational one. The inter-agency coordination arrangements established in Nigeria and Ghana should be strengthened and harmonized on a WAMZ-wide basis.

Deposit insurance is only in place in Nigeria and although a decision apparently has been made to establish deposit insurance on a WAMZ-wide basis, this is an issue that requires further study. Issues such as common coverage limits, premiums, institutional coverage, trade-offs between resources for supervision and deposit insurance (i.e., levels of supervision fees vs. insurance premiums) etc. will need to be considered. Any study should be done on a WAMZ-wide basis.

5. *An Action Plan for Harmonization and Establishment of WAFSA*

A regular Semi-Annual Meeting of Heads of Supervision will be initiated in mid-September 2003. WAMI has offered to act as a secretariat for these meetings of the Heads of Supervision. All actions listed below will become responsibility of the Semi-Annual Meetings.

September-2003

- Agree on a regional reform agenda with benchmarks and a timetable for harmonizing prudential regulations, supervisory processes and practices and prepare the ground for WAFSA.
- Agree on a tracking system to monitor progress and compliance with benchmarks, including progress in countries' efforts to become fully compliant with the BCPs.
- Decide on the objectives and responsibilities as well as the detailed institutional arrangements for WAFSA, and set up a Working Group to develop those detailed instructions into a draft law for WAFSA.
- Establish a Working Group in WAMI to coordinate plans for the creation of WAFSA and WACB and the development of the new laws for both institutions.
- Set up working groups to (i) develop a system for monitoring and control of market and other risks, (ii) streamline prudential limits and ratios, (iii) study the feasibility of a common accounting and reporting system and (iv) define a process of early consultations and search for commonality among supervisors before issuing any new legislation, regulations, guidelines, directives or manuals, including the establishment of a Legal Sub-Working Group. These working groups should be given target dates for intermediate outputs and completion.
- Agree on how to approach various institutions with a request for a WAMZ-wide external assessment of BCPs in mid-2004.

March 2004

- Monitor the reform agenda, including progress on BCPs, and make adjustments as necessary.
- Revise first draft of WAFSA law; meet with WAEMU counterparts to ensure compatibility of institutional arrangements.
- Consider appropriate financing arrangements for WAFSA, including the introduction of a supervision fee and licensing fees, and central bank financial support.
- Propose staffing and resources to facilitate and structure a well planned comprehensive information campaign aimed at both external parties and staff (supervisors).
- Develop a plan for streamlining the internal organization of the national supervisory authorities with a view toward harmonization and integration into WAFSA.
- Start a study of existing supervisory resources and outline the resource needs of WAFSA at the center and in the national offices. Consider compatibility of existing salaries and benefits on a WAMZ-wide basis and seek to establish a proper incentive balance for WAFSA staff.
- Further develop convergence criteria for regulations and supervisory practices at the national level for the regional harmonization process.

- Consider first draft of WAFSA law.
- Formalize cross-country information sharing arrangements between all WAMZ countries in the form of written Memoranda of Understanding (MOUs)..
- Launch new process of early consultations and search for commonality among supervisors before issuing any new legislation, regulations, guidelines, directives or manuals, including setting up the Legal Sub-Working Group to start revising existing laws and coordination of future legal amendments.
- Seek stepped up cooperation in the training of supervisors and emphasis on WAFSA in all training. This will require Nigeria and Ghana to accept a larger number of participants from other WAMZ countries in their training programs and dissemination of information on WAFSA to participants.
- Finalize preparations for a uniform external BCP assessment of all WAMZ countries in mid-2004 by the same group of external assessors/experts in order to provide a fully comparable platform for further reforms and harmonization.

September 2004

- Consider final draft of WAFSA law.
- Initiate information campaign about new WACB and WAFSA
- Discuss the results of the WAMZ-wide external assessment of BCPs and agree for follow-up actions and a time-table for bringing all countries to maximum compliance with the BCPs.
- Set up working groups to (i) coordinate supervisory practices and procedures, including developing common formats for bank accounting, reporting and disclosure and (ii) establish common rules for loan classification, loan loss provisioning and treatment of collateral.
- Review supervisory manuals in all WAMZ countries to extract key features and establish regional model manuals in different areas to guide the drafting of new manuals in WAMZ countries.
- Hold common WAMZ-wide seminars and workshops on key issues (such as the application of the Basel 2 Capital Accord, better loan classification and provisioning rules, management of market and operational risk, strengthening of internal controls, etc.) in order to forge closer working relations among supervisors and strengthen practices in banks.

March 2005

- Monitor measures to correct problem areas identified by the external BCP assessments.
- Intensify information campaigns about the creation of WACB and WAFSA.
- Complete streamlining of national organizations and reorganization of staffing consistent with the planned organization of WAFSA.
- Develop detailed plans for putting in operation the work of the various working groups.

July 1, 2005 — WAFSA starts operations.

6. *Areas of Policy Decision by WAMZ Authorities*

To move the WAMZ Banking Supervision Project forward, authorities are called upon to approve the following recommendations:

- Conduct full WAMZ-wide assessment of the BCPs in mid-2004 using the same external assessors for maximum comparability.

- Undertake harmonization of prudential rules and practices across the board, except in the case of minimum capital requirements where country-specific requirements may be allowed.
- Establish an independent WAFSA in close association with the WACB. It should have its own Chief Executive Officer (CEO) and an independent board chaired by the Governor of WACB including having independent financing sources.
- Exclude supervision of insurance from WAFSA initially with a provision to bring them on board as the situation demands.
- Undertake further study on deposit insurance on a WAMZ-wide basis in order to set up a zonal scheme.
- Adopt outlined action plan for the harmonization and establishment of WAFSA.



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TABLE OF CONTENTS

1. Introduction	1
2. Objectives and Scope of the Report.....	1
3. Size and Structure of Financial Systems in WAMZ.....	2
4. Structure of Supervisory Authorities in WAMZ	5
5. Status of Compliance with BCPs and Other Best Practices in WAMZ.....	7
6. Actions to Reach Compliance with the BCPs.....	8
7. Regulatory Challenges on the Road to WAFSA.....	9
8. Institutional Challenges on the Road to WAFSA.....	11

TEXT TABLES

Table 1: Number of Licensed Financial Institutions in WAMZ, end-2002.....	2
Table 2: Total Financial System and Banking Sector Assets, end-2002	2
Table 3: Selected Assets and Liabilities of Commercial Banks in WAMZ, end-2002 ...	3
Table 4: Ownership Structure of Commercial Banks in WAMZ, end-2002	4
Table 5: Banks with Cross-Border Presence in WAMZ and Market Shares.....	5
Table 6: Staffing and Cost of Supervision in WAMZ, 2002	6
Table 7: Assessment of WAMZ Countries' Compliance with Basel Core Principles	8

APPENDIX TABLES

Table A: Compliance with Basel Core Principles	16
Table C: Ghana: Compliance with the Basel Core Principles	18
Table D: Guinea: Compliance with the Basel Core Principles.....	19
Table E: Nigeria: Compliance with the Basel Core Principles.....	20
Table F: Sierra Leone: Compliance with the Basel Core Principles	21
Table G: Expanded Description of the Basel Core Principles.....	22
Table H: Legal Reserve and Liquid Asset Requirements and Qualifying Assets	23

Appendix A

Examples of Supervision by Regional Central Bank or Independent Regional Agency..	24
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1. Introduction

At the 7th meeting of the Convergence Council of the West African Monetary Zone (WAMZ) in April 2002 in Freetown, Sierra Leone, the Governments of The Gambia, Ghana, Guinea, Nigeria and Sierra Leone agreed to establish a centralized regional supervisory body to be known as the West African Financial Supervisory Authority (WAFSA). The West African Monetary Institute (WAMI), established in 2001 to prepare member states for monetary union and common central bank, was called upon to design the structure for the WAFSA. The objective of WAFSA is to ensure financial stability in the banking systems of member countries. This is in line with the long-term objective of merging the WAMZ and the West African Economic and Monetary Union (WAEMU) within the framework of the ECOWAS³ Monetary Cooperation Programme.

This study has been sponsored by the FIRST Initiative at the request of WAMI. The work was done by a consultant provided by FIRST Initiative and a staff member from WAMI (hereafter referred to as the Consultants), who also prepared this report.⁴

2. Objectives and Scope of the Report

The report seeks to: (a) take stock of progress towards meeting international standards and best practices for banking regulation and supervision based on existing external and internal assessments of each country's compliance with the Basel Core Principles for Effective Banking Supervision (BCPs), and (b) develop specific advice regarding cooperation between WAMZ supervisory authorities, an action plan for harmonization of supervisory rules and practices and (c) present an agreed upon institutional framework for establishing a common financial supervision authority (WAFSA).

The report follows the terms of reference agreed upon by the Heads of Banking Supervision in the five WAMZ countries during an inaugural meeting in Accra in mid-March 2003. The report is based on: (i) presentations made during that inaugural meeting, (ii) reviews of external or internal assessments of each country's compliance with the BCPs, (iii) a questionnaire completed by the supervisory authorities of each country, (iv) bilateral discussions between the Consultants and the supervisory authorities of the five WAMZ member countries⁵ and (v) a workshop in Accra on July 17-18, 2003 to discuss a near-final version of the report. The Consultants wish to thank all these authorities for their cooperation.

The paper is organized as follows: The next section reviews the size and structure of the financial and banking sectors in absolute and relative terms. Section 4 covers supervisory resources and costs. Section 5 reviews the status of compliance with the Basel Core Principles (BCPs) and section 6 covers the actions that are being taken in each of the countries to reach compliance with

³ The Economic Community of West African States (ECOWAS) is the umbrella organization comprising 15 countries in West Africa, including the 5 WAMZ, 8 WEAMU countries (Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo), Cape Verde and Liberia.

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⁵ For the bilateral discussions the Consultants visited each country and met with the senior supervision staff in each of the central bank, the Nigeria Deposit Insurance Corporation, the insurance commissions in Ghana and Nigeria, and the Securities and Exchange Commission in Ghana.

the BCPs. Section 7 deals with regulatory challenges on the road to WAFSA and section 8 covers institutional challenges that need to be dealt with before WAFSA can be created.

3. Size and Structure of Financial Systems in WAMZ

A comparison of the size and complexity of the financial system in each country shows that Nigeria has a very large system both in terms of asset size, and variety and numbers of institutions, whereas The Gambia, Guinea and Sierra Leone have relatively small systems with few financial institutions and Ghana falling in between. The WAMZ has 1,562 licensed financial institutions, made up of 125 commercial banks, 1,437 OFIs, including over 600 foreign exchange bureaus and 400 community banks, and 167 insurance companies (Table 1). About 60 percent of these institutions operate in Nigeria: 89 commercial banks, 742 OFIs and 122 insurance companies. The Gambia, Guinea and Sierra Leone have on average 6 commercial banks, 30 OFIs and 8 insurance companies. Ghana has 17 commercial banks, 438 OFIs and 20 insurance companies.

Table 1: Number of Licensed Financial Institutions in WAMZ, end-2002

	Gambia	Ghana	Guinea	Nigeria	S. Leone	WAMZ
Commercial banks	6	17	7	89	6	125
Discount houses		3		5	1	9
Community banks		115		282	2	399
Mortgage instit.	1	1		80	2	84
Finance companies	3	15		102	2	122
Microfinance instit.	14		4 ⁶	--		18
Exchange bureaus		288	24	267	33	612
Other ⁷		17		6	3	26
Subtotal OFIs	18	439	28	742	43	1,270
Insurance cos.	11	20	4	122	10	167
Total fincl. instit.	35	476	39	953	59	1,562

Source: WAMZ country authorities

The commercial banks dominate financial intermediation in all the countries. Banks accounted for 92 percent of total financial assets in the WAMZ as a whole, and exceeded the average in all countries except Ghana (Table 2). Owing to the preponderance of banks, the soundness of the banking sector is crucial for financial stability, monetary management and economic growth in the WAMZ.

Table 2: Total Financial System and Banking Sector Assets, end-2002

(As percent of total financial system assets)

	Gambia	Ghana	Guinea	Nigeria	S. Leone	WAMZ
Total system	100	100	100	100	100	100
Banks	98	81	92	94	93	92
OFIs	--	10	3	3	4	4
Insurance cos.	2	9*	5	3	2	4

* indicates Consultants' estimate.

⁶ In addition there are several unlicensed microfinance institutions.

⁷ Includes 7 development finance, 10 savings, 1 cooperative, 1 apex credit union and 6 leasing institutions.

Source: WAMZ country authorities and Consultants' estimates.

In terms of asset size, the commercial banking systems of the WAMZ amounted to the equivalent of USD 22.1 billion at year-end 2002 (Table 3). Banks in Nigeria accounted for USD 19.2 billion of all assets, Ghana for USD 2.2 billion, Guinea for USD 356 million and The Gambia and Sierra Leone for about USD 160 million each. Accordingly, Nigeria has 87 percent of the total banking system assets in the WAMZ, Ghana 10 percent and the remaining three countries 3 percent. Relative to the size of each country's economy, as measured by 2002 GDP, the assets of the commercial banking systems range in size from 11 percent in Guinea to 41 percent in Nigeria and 38 percent for WAMZ as a whole. Net credit to the private sector in relation to GDP ranged from 2.7 percent in Sierra Leone to 15.5 percent in Nigeria and 14.2 percent for the WAMZ.

Table 3: Selected Assets and Liabilities of Commercial Banks in WAMZ, end-2002

(In millions of USD equivalents, in percent or as otherwise indicated)

	Gambia	Ghana	Guinea	Nigeria	S. Leone	WAMZ
Total_assets (USD m)	172	2,209	356	19,218	153	22,180
Claims on CB ⁸	15	281	34*	3,125	5*	3,460
Credit ⁹ to NFPS ¹⁰	100*	1,336	175	10,490	79	12,180
to private sector	37	664	61	3,180	58	4,000
Deposits	63*	672	114	7,310	21	8,180
	93	1,326	260	9,410	105	11,194
Memo items:						
NPLs/loans (%) ¹¹	6.7	22.7	26.7	26.0	17.1	25.4
Provisions/NPLs (%) ¹²	83.1	59.5	88.5	94.0	55.8	...
Net NPLs/loans (%)	1.1	9.2	3.1	1.6	7.6	2.8
Assets/WAMZ (%) ¹³	0.8	10.0	1.6	86.6	0.7	100.0
Deposits/WAMZ (%) ¹⁴	0.8	11.8	2.3	84.1	0.9	100.0
Assets/GDP	21.8	37.2	11.3	40.9	20.9	38.4
Private credit/GDP	8.0	11.3	3.6	15.5	2.7	14.2
Deposits/GDP	11.8	22.4	8.2	20.0	13.3	19.4
Deposits /inhabitant (\$)	72	70	36	84	21	78
GDP (\$ m) ¹⁵	790	5,932	3,163	47,022	790	57,697
Population (m) ¹⁶	1.3	18.9	7.2	111.9	4.9	144.2

* indicates Consultants' estimate.

Sources: WAMZ country authorities and WAMI.

⁸ Claims on central bank, including reserve deposits and central bills.

⁹ Net of loan loss provisions.

¹⁰ Includes bank holdings of Treasury bills and other government securities.

¹¹ Nonperforming loans (NPLs) as percent of outstanding gross credit.

¹² Loan loss provisions as percent of NPLs.

¹³ Total assets of each banking system as percent of total assets of all WAMZ banking systems.

¹⁴ Total deposits of each banking system as percent of total deposits of all WAMZ banking systems.

¹⁵ 2002 GDP in millions of USD equivalents converted at average exchange rates.

¹⁶ Populations in millions, 1999 data.

Outstanding deposits at end-2002 were the equivalent of 19.4 percent of GDP for WAMZ as a whole and ranged from 8 percent of GDP in Guinea to 22 percent in Ghana. In absolute terms, deposits amounted to the equivalent of USD 11.2 billion for the WAMZ, with a distribution broadly similar to that for total assets. This works out to a deposit equivalent of USD 78 per WAMZ inhabitant ranging from USD 21 per inhabitant in Sierra Leone to USD 84 per inhabitant in Nigeria.

At end-2002, non-performing loans (NPLs) averaged 25 percent in the WAMZ (when weighted by loans outstanding) and range from 7 percent of gross loans outstanding in The Gambia to 27 percent in Guinea. However, all countries had high levels of loss provisions against NPLs, from 56 percent in Sierra Leone to 94 percent in Nigeria. Accordingly, NPLs that were not provided for averaged less than 3 percent region-wide, ranging from 1 percent in The Gambia to 9 percent in Sierra Leone. NPLs clearly need to be worked out effectively to recover maximum value and send appropriate signals to other borrowers but they no longer pose a financial threat to the banking system in any WAMZ country.

Bank ownership is mainly private, both domestic and foreign, except in Sierra Leone, where two state-owned banks still dominate the system (Table 4). In Guinea, the state remains a large minority shareholder in a foreign controlled bank. Foreign owned banks dominate in The Gambia, Ghana and Guinea, while most banks in Nigeria have domestic private owners. In all the countries foreign owned banks are locally incorporated as subsidiaries; no branches are allowed. In Ghana, despite the fact that most banks are majority controlled by foreign owners, private minority ownership of banks is widespread accounting for nearly 60 percent of all bank shares in the system.

Table 4: Ownership Structure of Commercial Banks in WAMZ, end-2002

(Number of banks, market shares by majority ownership and *actual ownership* in percent)

Ownership	Gambia	Ghana	Guinea	Nigeria	S. Leone	WAMZ
Domestic private	2 (29%) (33%)	9 (34%) (58%)	-- (25%)	85 (95%)	1 (7%) (13%)	97 (86%)
Foreign private	4 (71%) (67%)	6 (53%) (33%)	6 (62%) (58%)	2 (1%)	3 (34%) (28%)	21 (9%)
State	--	2 (13%) (9%)	-- (17%)	2 (4%)	2 (59%) (59%)	6 (5%)
Mixed	--	--	1 (38%)	--	--	--
Total	6 100%	17 100%	7 100%	89 100%	6 100%	125 100%

Source: WAMZ country authorities

There are 21 foreign banks operating in the WAMZ countries. However, if banks with operations in more than one country are counted as one, the number of foreign banks is reduced to 11. Six of these are active in more than one WAMZ jurisdiction (Table 5). Two of these banks with subsidiaries in more than one WAMZ country (Standard Chartered and Soci t  Generale) are part of large banking groups with European home supervisors of their parent banks; two of these banks have relatively large market shares in some countries. Nigeria is the home supervisor for a bank (Guaranty Trust) that has a 3 percent market share in Nigeria and subsidiaries with market shares of 3 percent in both The Gambia and Sierra Leone. Ghana is the supervisor of the parent bank of a bank in Guinea (International Commercial) although the ultimate owners in this case

are Malaysian. The Banking Commission of the WAEMU is home supervisor for the parent of a bank (Ecobank) with substantial operations in Ghana and Guinea and a small presence in Nigeria. Two banks (First International) established in The Gambia and Sierra Leone have common Nigerian non-bank owners.

Table 5: Banks with Cross-Border Presence in WAMZ and Market Shares¹⁷

Name of bank	Home supervisor	Gambia	Ghana	Guinea	Nigeria	S. Leone
Standard Chartered	UK	60%	16%		1%	30%
Guaranty Trust	Nigeria	3 %			3%	3%
First International	Gambia/S. Leone	2 %				2%
Ecobank ¹⁸	Togo		7%	12%	1%	
Société General	France		9%	26%		
Int'l Commercial	Ghana/Malaysia		1%	5%		

Source: WAMZ country authorities.

Cross-border ownership clearly calls for supervisory cooperation and coordination both in the case of on-going supervision and in problem cases. With the exception of the large presence of the two banks with large European ownership in some countries, the remaining banks with WAMZ cross-border ownership represent modest market shares. This implies that problems in any one of them are not likely to have systemic implications or contagion effects in the WAMZ as a whole.

4. Structure of Supervisory Authorities in WAMZ

Banking supervision in all WAMZ countries is the responsibility of their central banks, which also license and supervise OFIs. In some central banks, departments other than those responsible for supervision handle the licensing and supervision of foreign exchange bureaus. In Nigeria, the Nigeria Deposit Insurance Corporation (NDIC) also supervises commercial banks. Supervision of insurance companies is the responsibility of independent Insurance Commissions in Ghana, Nigeria and Sierra Leone, and the responsibility of the central banks in The Gambia and Guinea. All central banks separate supervision of banks and OFIs. Organizationally, all central banks have separate licensing, policy, on- and off-site functions. Supervisory resources and costs in each country are discussed in more detail below.

The number of supervisors in each country is shown in Table 6, which also indicates the number of supervisor(s) per bank, OFI and insurance company. The table includes rough estimates of the total cost of supervision in each country in USD equivalents (for comparison purposes,) as well as the supervision cost per category of institution, per supervisor and in relation to total assets of each type of institution.¹⁹ It must be stressed that it is difficult to estimate the cost of supervision on a comparable basis, as it is hard to separate supervision costs from other costs in central banks. However, the table makes an attempt of providing a first rough cross-country estimate based on data received from each country. It will be important to refine these estimates to make them

¹⁷ End-2002; country of head office and home supervisor indicated in **bold**.

¹⁸ Ecobank is based in Togo and also has offices in Benin, Burkina Faso, Cameroon, Cote d'Ivoire, Liberia, Mali, Niger and Senegal.

¹⁹ Number of supervisors reflect professional staff only, cost estimates also include support staff.

comparable among the countries and to allow a better understanding of the full resource implications of the creation of WAFSA for staffing and funding purposes.

There are altogether 907 supervisors of banks, OFIs and insurance companies in the WAMZ. Of these, 604 are central bank supervisors: 385 supervise commercial banks, 211 OFIs and 8 insurance companies. In addition some 150 supervisors each are employed by the insurance commissions and the NDIC. There are on average 3.1 supervisors per bank, 0.2 per OFI and 0.9 per insurance company.

Table 6: Staffing and Cost of Supervision in WAMZ, 2002

(Year-end number of supervisors, annual costs in USD equivalents or ratios as indicated)

	Gambia	Ghana	Guinea	Nigeria	S. Leone	WAMZ
Supervisors, total	16	192	14	654	31	907
Of which: in C. Banks	16	157	14	387	30	604
Coml. Banks	9	55	7	297+155 ²⁰	17	540
OFIs	3	102	3	90	13	211
Insurance ²¹	4	[35]	4	[112]	[1]	156
Supervision cost total (USD million)	0.160*	2.730	0.228	19,200	0.034	22,352
Of which: by C. Banks	0.160*	2.230	0.228	12,000	0.034	14,652
Banks	0.095*	0.829	0.114	9.21+4.65 ²²	0.019	10.266+4.65
OFIs	0.031*	1.401	0.049	2.79	0.015	4.286
Insurance	0.033*	0.500*	0.065	2.55	--	3.148*
Memo items: ²³						
Supervisor/bank	1.5	3.8	1.0	3.4	1.9	3.1
Supervisor/OFI	0.2	0.2	0.1	0.1	0.3	0.2
Supervisor/insur.co.	0.4	1.8	1.0	0.9	0.1	0.9
Cost/inst. (USD million)						
Bank	15,833	48,765	16,286	103,472	3,166	82,128
OFI	1,722	9,340	1,750	3,761	1,500	4,503
Insurance co.	3,000	25,000	16,286	20,900	--	18,850
Cost/supervisor (USD)						
Banks	10,556	15,073	16,286	31,010	1,133	26,665
OFIs	10,556	13,735	16,286	31,010	1,133	20,318
Insurance cos.	8,250	14,286	16,286	22,768	--	20,179
Assets/supervisor (USD million)						
Banks	19.1	34.0	50.9	64.7	9.0	57.4
OFIs	0.2	2.6	3.6	7.3	0.5	4.5
Insurance cos.	0.5	7.1*	4.8	5.7	4.0	5.9*

Source: WAMZ country authorities, Tables 1 and 2, and Consultants' estimates (*).

²⁰ The former number is for CBN and the latter for NDIC.

²¹ Bracket indicates number of staff of independent insurance commissions.

²² Estimate by Consultants: for CBN using 10% of total operating costs for 2002 (supervisors account for 7% of total CBN staff of 6,000) and for NDIC based on 2001 administrative expenses prorated for number and categories of supervisory staff to total staff and inflated by 15 percent for 2002.

²³ Excluding NDIC

Based on 2002 data, the total cost of supervision in the WAMZ is estimated at some USD 22.4 million, of which about USD 14.7 million is spent by the central banks. NDIC spends an additional USD 4.7 million on bank supervision, and the two insurance commissions in Ghana and Nigeria together spend about USD 3 million per year. In 2002, excluding NDIC, estimated annual supervision cost in WAMZ was about USD 82,130 per bank, USD 4,500 per OFI and USD 18,850 per insurance company.

Estimated average cost per WAMZ supervisor per year was USD 26,665 for banks and about USD 20,250 for OFIs and insurance companies. However, this conceals a wide dispersion of costs, from USD 1,133 per bank supervisor in Sierra Leone to over USD 31,000 per supervisor in Nigeria—a multiple of nearly 30. In addition, the NDIC spent USD 30,000 per supervisor. On average, the asset size of supervised institution per supervisor was USD 57 million for banks and USD 5-6 million for OFIs and insurance companies. The asset size per supervisor also showed substantial dispersion.

In all countries, the cost of banking and OFI supervision is fully covered by the central bank. Although they typically have the legal right to charge banks for the cost of on-site or special examinations, this has not been done to date, except in the case of costs of special examinations and due diligence-type work for bank liquidations, which must be considered separate from ongoing supervision. In Nigeria, the NDIC relies on fees (0.94 % of deposits) from insured institutions but that is primarily a premium that goes to the deposit insurance fund; the NDIC covers the costs of supervision from the yield of this fund. In Ghana and Nigeria the insurance commissions collect a fee of 1 percent of insurance companies' premium income, while in Guinea the central bank collects a premium of 1 percent of assets to defray supervision costs. In Nigeria the government also makes a substantial budget contribution to the commission. In The Gambia the central bank pays the full cost of insurance supervision.

5. Status of Compliance with BCPs and Other Best Practices in WAMZ

The analysis of status of prudential regulations and supervision in each of the countries is based on each country's compliance with the Basel Core Principles for Effective Banking Supervision (BCPs) and other considerations. BCP compliance assessments by external experts based on the methodology prescribed by Basel Committee for Guinea (May 2000), Ghana (April 2001) and Nigeria (May 2002). In the case of The Gambia and Sierra Leone, where no external assessments were available, the Consultants assessed BCP compliance in consultation with the authorities and, in the case of Sierra Leone, also with the participation of an IMF Banking Supervision Advisor. Although these two one-day assessments by the Consultants do not meet the criteria of a full external assessment, they do provide a more reasonable basis for comparisons for the purpose of this study than available internal assessments, which clearly showed excessively favorable pictures.

On average, countries complied or were largely compliant with most BCPs (4 BCPs are not applicable in the three smaller countries) and failed to comply with or were materially noncompliant with an average of 10 BCPs (Table 7). Areas of generally weak compliance were: information sharing, practices to deal with market and other risks, prevention of money laundering and remedial measures. As discussed below, it is important to note that all the countries are making broad-based efforts aimed at upgrading their legal and regulatory frameworks to bring them into compliance with the BCPs. The older the assessment, the less it tends to take into account reforms that already have been implemented.

Table 7: Assessment of WAMZ Countries' Compliance with Basel Core Principles²⁴

	Gambia	Ghana	Guinea	Nigeria	S. Leone	WAMZ average
Compliant	[6]	5	3	4	[11]	6
Largely compliant	[13]	15	5	14	[11]	12
Materially noncompliant	[2]	4	11	10	[2]	6
Noncompliant	[5]	3	7	2	[2]	4
Not applicable	[4]	3	4	--	[4]	3
Total	[30]	30	30	30	[30]	30

Sources: Appendix Tables B-F.

Appendix Tables B-F provide details for each country on the assessment of each BCP, identify areas of shortcomings and needed corrective actions, and summarize reforms under way.

6. Actions to Reach Compliance with the BCPs

All WAMZ countries are introducing extensive legal and regulatory changes to bring their rules and practices to the point where they will be able to meet the essential criteria for each of the relevant BCPs. All countries expect to complete their legal and regulatory efforts by the end of this year or definitely by early 2004. It can therefore be expected that all WAMZ countries will comply substantially with the BCPs by mid-2004. In areas where full compliance depends on supervisory resources and the development of practices and procedures in the banking industry, progress may be more gradual and constrained by perennial problems of scarce resources.

The efforts of each country are summarized below:

In **The Gambia**, a number of guidelines and regulations have been issued and a major revision of the Financial Institutions Act is under way and expected to be approved by end-2003 (Appendix Table B). The new law will strengthen the independence of supervisors by removing the involvement of the minister of finance, provide legal protection for supervisors, explicitly authorize information sharing with other supervisors, and tighten certain aspects of bank reporting and the monitoring of connected parties. A bill on money laundering is being processed in parallel and also expected to be enacted by end-2003. Several guidelines and instructions to banks are under revision in order to align rules and practices more explicitly with the BCPs.

In **Ghana**, efforts are being made to address areas that are materially non-compliant or non-compliant with the BCPs (Appendix Table C). A new banking bill now before the parliament seeks to give supervisors operational independence and more resources for oversight responsibility. The bill also provides for imposition of penalties in the case of breaches of requirements and for banks to introduce systems to measure, monitor and control market risks. On the prevention of fraud and money laundering, a separate bill is to be presented to the Attorney General for action.

In **Guinea**, the Banking Supervision Department has embarked on an action plan with the objective of revising and expanding the banking law and regulations (Appendix Table D). A new anti-money laundering law became effective in March 2003. A draft amendment to the banking

²⁴ The 6 sub-principles of BCP 1 are counted as 6 separate BCPs; numbers in brackets reflect assessments done by the Consultants in consultation with the authorities.

law that will bring several areas into compliance with the BCPs has been discussed with the banking community and is expected to be passed into law in September 2003; the amendments will give strong powers to a special central bank oversight Committee. Already, minimum capital adequacy and minimum capital requirements have been raised, the limit on large exposures tightened and new loan classification and loan loss provisioning rules put in place. Efforts are under way with the banks to strengthen accounting and disclosure procedures and internal controls. The central bank will formalize these practices with new rules and directives in 2003.

In **Nigeria**, there is a broad-based effort to strengthen the legal and regulatory frameworks (Appendix Table E). To address most of the existing shortcomings, amendments to the Banks and Other Financial Institutions Act (BOFIA) and the NDIC Act are being considered in the National Assembly. A new Financial Crimes Commission Act has been introduced to deal with money laundering and terrorist financing issues. The central bank has promulgated a number of new regulations and guidelines to strengthen compliance with the BCPs. It already has developed cooperative arrangements with NDIC and several foreign supervisors. The licensing of community banks and other financial institutions according to new rigorous criteria has been largely implemented, and contacts with banks' external auditors regularized.

In **Sierra Leone**, there is an effort under way to complement existing law and regulations: A new manual has been implemented for licensing of financial institutions. New regulations on asset classification, capital adequacy, large exposures, transactions with affiliates and controlling persons and external auditing and disclosure as well as new directives on management of liquidity risk, equity in financial institutions, internal controls and credit documentation are expected to be endorsed by Parliament by mid-2003. These regulations and directives will add detail and strength to existing procedures. A new policy manual will be adopted for a range of remedial measures, and MOUs are ready to be signed with various supervisors to facilitate exchange of information in the event that is needed. In the area of money laundering, a new law is being prepared to give further strength to existing guidelines. Finally, a major technical assistance effort is under way to help strengthen banking supervision processes and procedures. It is expected that these efforts will bring Sierra Leone into compliance with all relevant BCPs by end-2003, except in terms of supervision resources and two areas of the Banking Act, where changes are needed.

7. Regulatory Challenges on the Road to WAFSA

It appears as if some weaknesses will remain in all countries even after these efforts have been implemented, especially in two areas, i.e. (i) systems to measure, monitor and control market and other risks and (ii) development of techniques for consolidated analysis and supervision. The former will be much dependent on getting individual banks to put in place proper methods for scenario analysis, basic stress testing and contingency planning. So far, the latter issue of consolidation only applies to Nigeria as it is the only country with cross-ownership of financial institutions in any meaningful way. Although it is expected that the required consolidation in the case of Nigeria can be handled through the embedded software of the Bank Analysis System (BAS) that is being upgraded, there is likely to be a need for further work in this area. In both these areas, the development of basic concepts and methods on a WAMZ-wide basis would help to increase compliance with standards for all the countries involved.

An additional area for common efforts will be to agree on how the upcoming Basel 2 Capital Accord will be applied and implemented in the WAMZ countries. For example, it is likely that there will be new credit risk "buckets" even in the simplified version of the new Accord that would require changes in existing regulations and practices.

There are a number of challenges in seeking to combine one overwhelmingly large financial system with three small systems. In particular, it is necessary to make sure that any process of harmonization or integration does not lead to a watering down of prudential rules and practices in Nigeria and Ghana in order to accommodate the less complex financial systems. There is a need to identify core areas of commonality in which harmonization can take place by raising the standards of laggard countries and explicitly dealing with areas in which harmonization is unfeasible. At the same time, strengthening supervision is a moving target and supervisors in the more complex systems will continuously have to upgrade their systems to stay abreast of international developments and standards.

Specific areas in which regional harmonization will be needed are basic prudential ratios and rules; accounting, reporting and disclosure formats; loan valuation rules; loan recovery procedures; and policies and procedures for dealing with problem banks. In all these areas system size does not matter for the principles involved although it may, of course, matter for the process of implementation.

Table 8: Minimum Absolute Capital and Capital Adequacy Requirements

	Gambia	Ghana	Guinea	Nigeria	S. Leone
Capital adequacy requirement	8%	6%	10%	8%	15%
Risk weighted basis ²⁵	Yes+	No ²⁶	Yes	Yes	Yes+
Minimum capital requirement (domestic curr. /USD equival.)	None	C 70b \$7m	GNF 5b \$2.5m	N 20b \$17m	L880m \$0.35m

Source: WAMZ country authorities

Prudential ratios such as capital adequacy, liquidity, foreign exchange exposure and large exposure ratios can be streamlined (Table 8 and Appendix Table H). In the case of capital adequacy, there will be an additional need to agree on criteria for supervisors that wish to apply higher (than WAMZ minimum) ratios across the board or for individual banks to protect banks from market or operational risks, or data or valuation weaknesses. Monetary policy instruments that directly affect banks, such as legal reserve requirements and access rules to central bank credit, also should be streamlined; these policies, of course, would need to be unified under a common central bank anyway. Regulations should also be streamlined where ever feasible, for example, in the implementation of all the countries' new anti-money laundering laws. Although the opportunity for harmonizing the anti-money laundering laws has been lost, there still seems to be substantial scope for harmonizing regulations and procedures.

In the area of accounting rules, Guinea is presently considering the introduction of a new accounting plan based on the uniform accounting plan used in the WAEMU. There is a need to consider introducing a common accounting plan for the WAMZ as well, and to study the WAEMU model given the potential for a future merger with that sub-region. Guinea should at least consider the accounting plans used in Nigeria and Ghana. Even if a common accounting plan cannot be adopted, WAMZ countries must develop a common detailed reporting format with common reporting forms. This will help streamline and strengthen off-site monitoring and

²⁵ YES+ indicates risk weights higher than those in the Basel Capital Accord.

²⁶ Capital of 6 percent is required against all risks, including government.

financial analysis and set a basis for more uniform supervisory practices. The harmonization should also be extended to common disclosure requirements.

Another key area for streamlining of rules and procedures are the rules and practices for loan valuation, loan loss provisioning and interest suspension. Countries appear to have broadly similar systems of loan classification and provisioning percentages but specific criteria may differ. The treatment of collateral in the case of NPLs seem to differ, as one country does not consider collateral at all in establishing provisioning needs, while another one considers only cash collateral. Given that loan valuation is essential for determining banks' capital adequacy, a streamlining of rules on a regional basis drawing on best practices will be useful in this area that lacks clear and operational international standards.

All WAMZ countries have had banking problems over the last decade and have gained valuable (and expensive) resolution experiences that should be compared and merged into a common approach for dealing with problem banks. This should include commonly agreed upon graduated scale of corrective measures, precise criteria for such measures and capital adequacy or liquidity triggers for prompt corrective action. Given the importance of loan recovery procedures in dealing with NPLs both for normal banking and bank liquidations, loan recovery and foreclosure rules and procedures also should be reviewed with a view to strengthening the framework in the WAMZ. The authority and capacity of individual country supervisors to deal with problem banks are likely to be strengthened by regional rules and the peer pressure of supervisors from other WAMZ countries calling for the appropriate actions based on agreed policies.

There is one area in particular, where system size will be important: minimum capital requirements (see Table 8). Minimum capital will be a difficult issue to deal with. Nigeria presently requires a minimum capital equivalent of USD 17 million, whereas Ghana requires USD 7 million, Guinea USD 2.5 million and Sierra Leone USD 350,000 (Table 8). The Gambia has no minimum requirement but is considering introducing a requirement in the order of USD 1 million. Nigeria does not want to reduce its entry requirement and banks in the smaller countries cannot be expected to observe the Nigerian or even the Ghanaian rules, given the small size of their banking systems. At the same time, entry into one of the smaller countries must not allow automatic entry into the larger countries, for example through branches—although that does not seem to be a problem under existing requirements of local incorporation. Given that the creation of a single banking market in the WAMZ is not immediate objective, the solution would seem to be to maintain country-specific minimum capital requirements for entry, even though other licensing criteria could be common ones.

8. Institutional Challenges on the Road to WAFSA

Institutional structure of WAFSA

WAFSA could be established as an integrated part or a semi-independent wing of the WACB or as an altogether independent agency working closely with the WACB. The workshop considered advantages and disadvantages of WAFSA being independent body on the one hand and being part of the WACB on the other hand.

Advantages of an ***independent agency*** include (i) prudential objectives becoming its primary objectives, (ii) bank closure decisions being less easily postponed through lender of last resort (LOLR) support, (iii) more independence in decisions regarding the allocation of supervisory resources, (iv) more scope for developing a career stream for supervisors, (v) more scope for

linking supervisors' pay scales to those of bankers and (vi) easier integration with insurance and securities supervision. Disadvantages include: (i) the longer time it will take to establish the authority and "clout" of the new body, (ii) possible loss of key staff when the agency is split from central bank, (iii) loss of easy access to information on banks' clearing and market operations, (iii) financing problems, as new funding arrangements are likely to be resisted, (iv) potentially more vulnerable to political influence and (v) coordination with monetary policy becoming more difficult.

Advantages of setting up the supervision **authority within WACB** would include (i) financing provided by the central bank, (ii) ability to monitor bank liquidity and market operations on a continuous basis, (iii) ability to draw on central bank research, (iv) close linkages with monetary policy and (v) sharing in the prestige and clout of the central bank. Disadvantages of being in the central bank would include: (i) monetary objectives typically overruling prudential objectives, (ii) budget allocations for supervision guided by exogenous criteria, (iii) lack of arms length distance to the LOLR function, (iv) arbitrary staff rotations, and lack of a supervisor career stream and (v) difficulty for the authority to extend its coverage to non-banking areas.

After considering the advantages and disadvantages of the two options, the heads of supervision participating in the workshop were unanimous in their view that WAFSA would need to combine the positive aspects of both options. It would need to have operational independence, yet be very closely associated with the WACB. Accordingly, the participants considered an arrangement with an **independent authority with its own board and chief executive (CEO) the most suitable**. The CEO of WAFSA should be appointed by the same authority that appoints the Governor of the WACB and on similar terms. **The independent WAFSA should be closely linked to the WACB. This would be achieved by having the Governor of the WACB chair the WAFSA Board, thus ensuring close cooperation and coordination.**

This type of arrangement would allow WAFSA to have clear focus and objectives, as well as to develop a career stream for supervisors and better allocate resources according to its own priorities. An independent WAFSA could also more naturally include other areas of supervision at a later stage. The involvement of the WACB Governor as chairman would carry over the "clout" of the central banks, provide a measure of protection from political influences and facilitate coordination with monetary policy; it might also make the WACB more willing to provide resources for WAFSA.

The proposed arrangement would be similar to the institutional setup in the WAEMU, which would facilitate the planned future merger between the two monetary zones.²⁷ It is recommended that some early exchanges of views with relevant WAEMU institutions take place in order for WAMZ supervisors to benefit from the WAEMU experiences with regional bodies.

The authorities in all the countries are strongly of the view that the creation of WAFSA must take place in parallel with the creation of the common WACB. The two are complementary. They did not consider WAFSA a viable proposition politically or operationally without the WACB. The establishment of the WAFSA should thus be planned with the same target date as the one for the creation of the WACB, i.e., July 1, 2005. Needless to say, a delay in the creation of the WACB also would delay the creation of WAFSA.

²⁷ The version of this report discussed at the workshop included brief descriptions of some regional supervision bodies elsewhere, i.e. the Banking Commission of the WAEMU, the Eastern Caribbean Central Bank and the setup in the European Union (for those descriptions, see Appendix A.)

Internal organization of WAFSA

Policy and rule making is a centralized function, while on-site supervision of financial institutions is a decentralized one. WAFSA, therefore, should have a relatively small central body responsible for common rules, policies and overall monitoring as well national offices in each country to monitor regulatory compliance, policy implementation and do on-site examinations. The national offices of WAFSA should operate in close association with the national offices of the WACB.

The WAFSA would be managed by its CEO under the guidance of a board chaired by the WACB Governor. The CEO should have extensive operational independence stipulated by law and as delegated by the board. The CEO should be appointed for a term that should not be terminated except under conditions specified in the law. The size and composition of the board would need to be determined; it would probably need to include representatives from each country. Directors should be appointed to full terms in their personal capacity and should be individuals with integrity and appropriate professional backgrounds. Directors could serve full or part time.

The country managers of WAFSA's national offices should report to the CEO and not to the heads of national central banks. A regional authority typically strengthens the hand of national supervisors as they become subject to central authority and the peer review that follows from a supranational board, thus reducing political influences at the country level. WAFSA country Managers should have clearly delegated authorities to operate independently.

These organizational arrangements need to be agreed upon in detail and included in a draft law as soon as possible to increase the understanding of all participants of their roles in the reform process. As soon as the entire structure of the new WAFSA has been decided upon, a carefully crafted information campaign aimed at both external and internal audiences should be launched.

Financing of WAFSA

The WAFSA would need to be constituted in such a way that it would be able to operate independently of national political authorities and the WACB. It should be accountable to the appropriate body established in its law but not subject to pressures that would force it to divert from its objectives. Accordingly, it would need to have independent financing sources and not be held hostage to any type of annual budget negotiations. Workshop participant thought all WAFSA costs should be covered by the central bank (WACB) as has been the practice until now.

It is recommended, however, that consideration be given to the introduction of a ***supervision fee*** to be levied on all licensed banks and OFIs in relation to their total assets. Based on total assets of USD 22 billion an annual fee of 0.07 percent would yield USD 15 million per year, which would cover in full the estimated 2002 supervision costs of the WAMZ central banks. The fee could be lower, if it were combined with transfers from the WACB or revenue could be raised from the introduction of licensing fees for initial licensing and/or for periodic renewals of licenses. The size of a supervision fee should also be considered in conjunction with a likely future deposit insurance premium/fee, as discussed below.

Workshop participants were not particularly enthusiastic about a supervision fee because it would be a break from the past, most likely be resisted by the banking industry, and might be difficult to

collect. It was pointed out that the establishment of WAFSA would give a unique opportunity to break with past practices. Banks' resistance to a fee could be limited by keeping it low or by compensating them through better remuneration of reserve requirements or perhaps a lower deposit insurance fee/premium. Collection problems could be eliminated by automatically deducting the fee from banks' clearing accounts, say, on a quarterly basis.

Full or partial independent funding of WAFSA would give it budgetary and financial independence and flexibility, the importance of which should not be underestimated for efficient operations. This flexibility would be particularly important in key areas such as salaries, updating of information systems, access to specialized technical support and training. It should be noted that reliance on supervision fees (rather than on cross-subsidies from central banks or government budgets) has become an internationally increasingly used and accepted form of financing supervision in recent years.

Should insurance and other intermediation be covered by WAFSA?

Given the predominant role of commercial banks and the lack of significant cross-ownership in the financial industry, the focus of WAFSA should be on commercial banks and OFIs presently covered by central bank supervision. The insurance sectors and capital markets remain underdeveloped in all the countries. Despite the introduction of universal banking in Nigeria and Ghana, cross-ownership between banks and insurance companies or OFIs remains insignificant. At the same time, there is recognition that cross-ownership will increase and that there will be a growing need for consolidated supervision and capital market development, especially in the case of Nigeria.

The heads of supervision participating in the workshop agreed that there is a need to plan for the future inclusion of insurance companies and possibly other areas such as private pension funds and securities markets in the coverage of WAFSA but stressed that this is no immediate priority. To include supervision of insurance companies under WAFSA in the early stages would only make the transition more complex and divert attention from core banking supervision issues. It was agreed that law for WAFSA should facilitate expanding its coverage, that a "desk" would be set up in WAFSA to study the insurance supervision issues and that a transitory arrangement would be established for covering insurance supervision in The Gambia and Ghana.

For The Gambia and Guinea, the WAFSA would also cover insurance companies in a transitory arrangement in its national offices. This arrangement could also be extended to Sierra Leone, which is supposed to have an insurance commission but does not have an operational one. In Nigeria and Ghana, their independent insurance commissions would continue as before. At the same time, WAFSA could begin to study the full implications of bringing all insurance regulation and supervision, including the insurance commissions of Nigeria and Ghana, under the common regional roof of WAFSA.

In the meantime, coordination between banking, insurance and securities supervisors can be handled through inter-agency coordination by strengthening and further formalizing the frameworks already used in Ghana and Nigeria. These efforts must not be allowed to erode into apathy as seems to be the case in at least one country. Such coordination must also be extended to supervisors of securities businesses and private pension funds, where applicable. The frameworks for cooperation and information sharing between national supervisors should also be harmonized on a regional basis.

Deposit Insurance

Deposit insurance is an important area in which the banking systems are likely to continue to diverge until sound bases for possible common coverage limits, premiums, institutional coverage, etc. can be established. Small banking systems and concentrated bank ownership in the smaller countries does not seem to provide a basis for deposit insurance arrangements on a national basis. Although a decision to set up a common scheme in the WAMZ apparently already has been decided upon at the political level, this is a topic that requires further detailed consideration.

Deposit insurance would seem to be a topic suitable for a separate study. Given the common interest in such a scheme in the WAMZ, the existing scheme in Nigeria, and the high cost of such a study, it is suggested that any study of the feasibility and design of deposit insurance be done on a WAMZ-wide basis. (Sierra Leone is considering such a study at the recommendation of an IMF mission.) It should be noted that a regional deposit insurance scheme would be unprecedented. Any study would also need to take into account the changes under consideration in Nigeria, which may or may not further the interests of a common scheme.

Deposit insurance premiums/fees should also be reviewed in conjunction with the proposed new banking supervision fee. Stronger banking supervision may allow for a lowering of the insurance fee (0.94 per cent of deposits.) Such a trade-off may allow for the introduction of a supervision fee without increasing the overall cost for banks.

Table A: Compliance with Basel Core Principles

BCP #	Brief Description of BCP	Gambia	Ghana	Guinea	Nigeria	S.Leone	WAMZ ²⁸
1.1	Responsibilities and objectives	C	LC	LC	LC	C	2.4
1.2	Independence and resources	NO	MNC	MNC	LC	LC	1.2
1.3	Legal framework	LC	LC	C	LC	NO	1.8
1.4	Enforcement powers	LC	LC	LC	C	C	2.4
1.5	Legal protection	NO	C	MNC	MNC	C	1.4
1.6	Information sharing	LC	NO	MNC	LC	LC	1.4
2	Permissible activities	C	LC	NO	MNC	C	1.8
3	Licensing criteria	NO	LC	NO	LC	C	1.4
4	Ownership	C	C	C	LC	NO	2.2
5	Investment criteria	LC	LC	NO	C	C	2.0
6	Capital adequacy	LC	LC	MNC	MNC	C	1.8
7	Credit policies	LC	LC	NO	LC	C	1.8
8	Loan evaluation and loss provisions	LC	LC	MNC	LC	LC	1.8
9	Large exposure limits	C	LC	C	MNC	C	2.4
10	Connected lending	LC	C	LC	MNC	C	2.2
11	Country risk	N/A	N/A	N/A	NO	N/A	N/A / 0.0
12	Market risks	MNC	MNC	MNC	NO	LC	1.0
13	Other risks	MNC	LC	NO	MNC	C	1.4
14	Internal control and audit	LC	LC	MNC	MNC	C	1.8
15	Money laundering	NO	NO	NO	MNC	MNC	0.4
16	On- and off-site supervision	C	C	LC	LC	LC	2.4
17	Contacts with bank management	LC	C	LC	C	LC	2.4
18	Off-site supervision	C	LC	MNC	MNC	LC	1.8
19	Validation of supervisory data	LC	LC	MNC	C	LC	2.0
20	Consolidated supervision	N/A	NO	N/A	MNC	N/A	N/A / 0.5
21	Accounting and disclosure	LC	LC	MNC	LC	LC	1.8
22	Remedial measures	NO	MNC	MNC	LC	MNC	1.0
23	Global consolidated supervision	N/A	N/A	N/A	LC	N/A	N/A / 2.0
24	Host country supervision	N/A	N/A	N/A	LC	N/A	N/A / 2.0
25	Supervision of foreign banks	LC	MNC	NO	LC	LC	1.4

C = Compliant; LC=Largely Compliant; MNC=Materially Noncompliant; NO=Noncompliant; N/A=Not Applicable

 indicates high level of compliance;  indicates low level of compliance.

²⁸ Average of three countries with external assessments, where C = 3; LC = 2; MNC = 1 and NO = 0.

Table B: The Gambia: Compliance with the Basel Core Principles 29

BCP	Brief Description of BCP	Assessment	Action Required	Actions Taken
1.1	Responsibilities and objectives	C		
1.2	Independence and resources	NO	Remove role of Minister of Finance Strengthen supervisory resources	New Financial Institutions Act (FIA) under consideration
1.3	Legal framework	LC	Remove role of Minister of Finance	New FIA in process
1.4	Enforcement powers	LC	Remove role of Minister of Finance	New FIA in process
1.5	Legal protection	NO	Provide proper legal protection	New FIA in process
1.6	Information sharing	LC	Make information sharing explicit, formalize with MOUs	New FIA in process
2	Permissible activities	C		
3	Licensing criteria	NO	Introduce min. capital requirement; and rules for changing management	Guidelines being developed for changing management after licensing
4	Ownership	C		
5	Investment criteria	LC	Largely prohibited; need for criteria	
6	Capital adequacy	LC	No provision for market risks	
7	Credit policies	LC	Strengthen definition of connected parties	New FIA will require continuous disclosure of connected parties
8	Loan evaluation and loss provisions	LC	Include off-balance sheet exposures	Revision of guidelines under consideration
9	Large exposure limits	C		
10	Connected lending	LC	Explicit legal requirements will strengthen existing guidelines	New FIA will require continuous disclosure of connected relations
11	Country risk	N/A		
12	Market risks	MNC	Need system to monitor exchange and interest rate risks	
13	Other risks	MNC	Need system to monitor other risks	
14	Internal control and audit	LC	Strengthen checks and balances; and internal audit process	New FIA in process
15	Money laundering	NO	Legislation required	New special law being processed
16	On- and off-site supervision	C		
17	Contacts with bank management	LC	Bank management required to report adverse developments	New FIA in process
18	Off-site supervision	C		
19	Validation of supervisory data	LC	Policies for increased involvement of external auditors	Rules being developed to clarify their role
20	Consolidated supervision	N/A		
21	Accounting and disclosure	LC	Better define data standards for prudential returns	Additional guidelines under consideration
22	Remedial measures	NO	Allow withdrawal of license without court approval; NEED TO AMEND DRAFT FIA.	
23	Global consolidated supervision	N/A		
24	Host country supervision	N/A		
25	Supervision of foreign banks	LC	Strengthen information sharing requirements	New FIA in process

C = Compliant; LC=Largely Compliant; MNC=Materially Noncompliant; NO=Noncompliant; N/A=Not Applicable

²⁹ This assessment was done by the Consultants in discussions with the banking supervision authorities; it does not qualify as a full external assessment.

Table C: Ghana: Compliance with the Basel Core Principles

BCP	Brief Description of BCP	Assessment	Action Required	Actions Taken
1.1	Responsibilities and objectives	LC		
1.2	Independence and resources	MNC	Give BOG powers to independently license and change capital adequacy requirements of banks	New Banking Bill before Parliament
1.3	Legal framework	LC		
1.4	Enforcement powers	LC		
1.5	Legal protection	C		
1.6	Information sharing	NO	Need to establish contact with domestic and foreign supervisors	Periodic meetings with Commissioners of Insurance, and Securities and Exchange
2	Permissible activities	LC		
3	Licensing criteria	LC		
4	Ownership	C		
5	Investment criteria	LC		
6	Capital adequacy	LC		
7	Credit policies	LC		
8	Loan evaluation and loss provisions	LC		
9	Large exposure limits	LC		
10	Connected lending	C		
11	Country risk	N/A		
12	Market risks	MNC	BOG to begin enforcing limits on exposures	New Banking Bill to give BOG power to impose penalties
13	Other risks	LC		
14	Internal control and audit	LC		
15	Money laundering	NO	Need for anti-money laundering legislation and procedures	New draft Bill being finalized, new BOG directives for bank procedures
16	On- and off-site supervision	C		
17	Contacts with bank management	C		
18	Off-site supervision	LC		
19	Validation of supervisory data	LC		
20	Consolidated supervision	NO	No regulations or practices for consolidation	NO ACTION until needed, so far no groups or conglomerates
21	Accounting and disclosure	LC		
22	Remedial measures	MNC	Need to strengthen enforcement powers	
23	Global consolidated supervision	N/A		
24	Host country supervision	N/A		
25	Supervision of foreign banks	MNC	Need to formalize contacts with home supervisors	

C = Compliant; LC=Largely Compliant; MNC=Materially Noncompliant; NO=Noncompliant; N/A=Not Applicable

Table D: Guinea: Compliance with the Basel Core Principles

BCP	Brief Description of BCP	Assessment	Action Required	Actions Taken
1.1	Responsibilities and objectives	LC	Define clear responsibilities and objectives for the banking authority	Draft Amendment of Banking Law (ABL) to reinforce the regulation and supervision of banks and micro-finance institutions (MFIs)
1.2	Independence and resources	MNC	Reduce political interference in banking supervision	Legal and regulatory texts being strengthened
1.3	Legal framework	C	Agree on the scope and full regulation of banks including micro-finance institutions	Draft ABL gives powers to Committee on Banks and Micro-finance Institutions (CBMFI). New Micro-finance Law by end-September 2003.
1.4	Enforcement powers	LC	Define clear rules for resolving bank crisis	Draft ABL establishes range of sanctions for non-compliance with prudential regulation
1.5	Legal protection	MNC	Legal protection for supervisors	Draft ABL protects the supervisory agency and its staff in lawsuits in the course of their duties
1.6	Information sharing	MNC	Establish the framework for exchange of information	Draft ABL provides for information sharing and cooperation among supervisory authorities
2	Permissible activities	NO	Prohibit unlicensed establishments from doing banking business	All banks and MFIs must be authorized by CBMFI; sanctions for non-compliance
3	Licensing criteria	NO	Enforce compliance with all requirements by banks, management and officers	
4	Ownership	C	CBMFI to authorize acquisition and transfer of shares	Draft ABL authorizes CBMFI to decide at any moment
5	Investment criteria	NO	CBMFI to authorize acquisition and transfer of shares	Draft ABL authorizes CBMFI to decide at any moment
6	Capital adequacy	MNC	Define appropriate minimum capital adequacy ratios and risk levels	Risk-weighted minimum CAR raised to 10%; minimum capital requirement to GNF 5 billion
7	Credit policies	NO	Formalize practices and procedures for credit delivery and repayment	New regulation to be completed as part of revision of the framework for internal control
8	Loan evaluation and loss provisions	MNC	Define regulation on adequate policies and procedures for evaluating asset quality, loan classification and loss provisioning	CBRG issued new regulations and directives on classification and loan loss provisioning in November 2002
9	Large exposure limits	C	Have adequate management information system and regulate concentration of risks	Risk concentration limit has been reduced to 25%
10	Connected lending	LC	Restrict connected lending and lending to related companies and individuals	Draft ABL sets limits and makes connected lending beyond approved limits an offence
11	Country risk	N/A		
12	Market risks	MNC	Controlling exchange and liquidity risks; capital charge on market risk exposures	Liquidity ratio raised to 100% ; regulations to be issued in 2003 on liquidity and exchange risks
13	Other risks	NO	Having comprehensive risk management process and hold capital against risks	Banks are obliged to disclose their policies and procedures for managing risks
14	Internal control and audit	MNC	Strengthen internal audit	New regulations on internal audit to be issued in 2003
15	Money laundering	NO	Regulation against money laundering	New law in force since March 31, 2003
16	On- and off-site supervision	LC	Strengthen on-site and off-site supervision	Reorganization of Banking Supervision Department strengthens on- and off-site supervision of banks
17	Contacts with bank management	LC	Have regular contacts with bank management	Process for annual meetings with managements and follow-up with submission of accounts is being developed
18	Off-site supervision	MNC	Strengthen review and analysis of bank returns	Applying a new accounting plan will strengthen the reporting system
19	Validation of supervisory data	MNC	Regular update of supervisory data to bank management	Draft ABL provides for discussion of supervisors reports with bank boards.
20	Consolidated supervision	N/A		
21	Accounting and disclosure	MNC	Broaden and publish bank records as required by supervisors	New accounting plan will improve quality of accounts, publishing will be required
22	Remedial measures	MNC	Strengthen powers of sanction by banking authority and to resolve bank crisis	Draft ABL
23	Global consolidated supervision	N/A		
24	Host country supervision	N/A		
25	Supervision of foreign banks	NO	Strengthen exchange of information with other banking authorities	Draft ABL; MOUs to be signed with foreign supervisors

C = Compliant; LC=Large Compliant; MNC=Materially Noncompliant; NO=Noncompliant; N/A=Not Applicable

Table E: Nigeria: Compliance with the Basel Core Principles

BCP	Brief Description of BCP	Assessment	Action Required	Actions Taken
1.1	Responsibilities and objectives	LC	Revise BOFIA to become consistent with universal banking	BOFIA amendment in National Assembly
1.2	Independence and resources	LC	Provide NDIC legal independence; resources to allow coverage of community banks and OFIs	NDICA amendment; most community banks already licensed
1.3	Legal framework	LC	Additional prudential guidelines	BOFIA amendment, circulars on CBN website
1.4	Enforcement powers	C		
1.5	Legal protection	MNC	Legal protection for NDIC staff	NDICA amendment
1.6	Information sharing	LC	NDIC not member of Financial Sector regulation Coordinating Committee (F SRCC)	CBNA amendment
2	Permissible activities	MNC	License or close community banks	Most qualifying community banks have been licensed; not qualifying ones have been closed.
3	Licensing criteria	LC	Require competence of directors	Circular on prequalification, rigorous vetting of capital, fit and proper procedures
4	Ownership	LC	Introduce significant ownership concept	BOFIA amendment
5	Investment criteria	C		
6	Capital adequacy	MNC	Revise some risk-weights to comply w. Basel; increase CAR beyond 8% over time	New format for calculation risk weights in place
7	Credit policies	LC	Guidelines for minimum standards for banks	Guideline being finalized
8	Loan evaluation and loss provisions	LC		
9	Large exposure limits	MNC	Power to deem existence of group; guidelines for large exposures; aggregate limit for large exposures	Power to deem group in BOFIA amendment; <i>NO OTHER ACTION</i>
10	Connected lending	MNC	Power to deem party connected	Power to deem connection and arms length requirement part of BOFIA amendment
11	Country risk	NO	Guidelines on country and transfer risks	
12	Market risks	NO	Guidelines and system deal with market risks, incl. forex exposures	
13	Other risks	MNC	Guidelines on other risks	
14	Internal control and audit	MNC	Increase awareness of internal control and audit in banks	Have workshops for bankers and considering additional guidelines
15	Money laundering	MNC	Revise legal framework in line w. FATF and extend it to cover all types of financial crimes	New Financial Crimes Commission Act; new Commission already operating
16	On- and off-site supervision	LC	Increase focus on risk management; improve reliability of returns	CBN/NDIC subcommittee has done analysis and is working on new processes
17	Contacts with bank management	C		
18	Off-site supervision	MNC	Solo and consolidated data for banking groups; Make CBN and NDIC bank ratings consistent; improve quality of analysis and risk focus	Bank Analysis System (BAS) software being upgraded; new circular under study
19	Validation of supervisory data	C		
20	Consolidated supervision	MNC	Clarify legal basis; begin formal process for evaluation; apply prudential standards on consolidated basis	Embedded in new BAS software under development; work in progress
21	Accounting and disclosure	LC	Improve interaction with external auditors	Regular meetings with bank external auditors, and in connection with audits.
22	Remedial measures	LC	Legal independence for NDIC; and practices for prompt intervention	NDICA amendment; contingency planning Framework in place for problem banks
23	Global consolidated supervision	LC	Guidelines for overseas operations	
24	Host country supervision	LC	Formal arrangement for detailed information sharing	One MOU signed, others in process
25	Supervision of foreign banks	LC	Regular and formal communications with home country supervisors	One info sharing agreement signed, others to be finalized

C = Compliant; LC=Largely Compliant; MNC=Materially Noncompliant; NO=Noncompliant; N/A=Not Applicable

Table F: Sierra Leone: Compliance with the Basel Core Principles³⁰

BCP	Brief Description of BCP	Assessment	Action Required	Actions Taken
1.1	Responsibilities and objectives	C		
1.2	Independence and resources	LC	More resources required	
1.3	Legal framework	NO	Remove need for consultation w. MOF and Parliamentary approval of some regulations	
1.4	Enforcement powers	C		
1.5	Legal protection	C		
1.6	Information sharing	LC	Formalize arrangements for future needs; never needed in the past	MOUs to be exchanged with other supervisors
2	Permissible activities	C		
3	Licensing criteria	C		
4	Ownership	NO	Need to clarify issues regarding ownership of banks	New regulation processed for Parliamentary approval
5	Investment criteria	C		
6	Capital adequacy	LC	Market risk requires clarification	Issue will be addressed
7	Credit policies	C		
8	Loan evaluation and loss provisions	LC	Seek to strengthen procedures in banks and supervisory capacity	
9	Large exposure limits	C		
10	Connected lending	C		
11	Country risk	N/A		
12	Market risks	LC	Strengthen supervisory capacity	
13	Other risks	C		
14	Internal control and audit	C		
15	Money laundering	MNC	Existing guidelines elevated into law	Law under preparation
16	On- and off-site supervision	LC	Strengthen supervisory capacity	
17	Contacts with bank management	LC	Strengthen supervisory capacity	
18	Off-site supervision	LC	Strengthen supervisory capacity	
19	Validation of supervisory data	LC	Strengthen supervisory capacity	
20	Consolidated supervision	N/A		
21	Accounting and disclosure	LC	Strengthen supervisory capacity	
22	Remedial measures	MNC	Increase the range of available measures	New policy manual prepared
23	Global consolidated supervision	N/A		
24	Host country supervision	N/A		
25	Supervision of foreign banks	LC	Strengthen supervisory capacity	

C = Compliant; LC=Largely Compliant; MNC=Materially Noncompliant; NO=Noncompliant; N/A=Not Applicable

³⁰ This assessment was done by the Consultants in discussions with the IMF Banking Supervision Advisor and the banking supervision authorities; it does not qualify as a full external assessment.

Appendix Table G: Expanded Description of the Basel Core Principles

BCP #	Brief Description of each BCP
1.1	Clear responsibilities and objectives for supervisory agency
1.2	Agency to possess operational independence and adequate resources
1.3	Suitable legal framework, incl. for authorization and supervision of banks
1.4	Suitable legal framework, incl. powers for compliance w. laws and soundness
1.5	Suitable legal framework for supervision, incl. legal protection for supervisors
1.6	Sharing information among supervisors, while protecting confidentiality
2	Permissible activities of licensed institutions to be defined, use of word “bank”
3	Licensing criteria and powers to reject; require consent of home supervisor
4	Right to review and reject transfers of significant ownership stakes
5	Right to review major investment decisions and risky corporate structures
6	Minimum capital requirements; apply Basel Accord for international banks
7	Independent evaluation of banks’ credit granting and monitoring
8	Practices for evaluating quality of assets and establishing loan loss provisions
9	Management information systems and limits on single and related borrowers
10	Limits on connected lending; allow only arm’s-length transactions
11	Policies for dealing with international country and transfer risk
12	Policies for dealing with market risks; impose limits or require more capital
13	Comprehensive risk management systems in banks
14	Internal controls, independent internal and external audits of banks
15	“Know-your-customer” rules and prevention of use by criminal elements
16	Effective supervision must include both on- and off-site supervision
17	Regular contacts with bank management and understanding bank’s operations
18	Means to collect and review bank returns on solo and consolidated basis
19	Independent validation of returns through on-site or use of external audits
20	Ability to supervise banking group on consolidated basis
21	Ensure proper accounting and regular disclosure for true view of bank finances
22	Adequate measures to deal with problem banks, incl. powers to revoke license
23	Global consolidated supervision of bank operations worldwide
24	Exchange information with other supervisors, mainly host supervisors
25	Foreign banks meet high local standards; sharing info with home supervisors

**Table H: Legal Reserve and Liquid Asset Requirements and Qualifying Assets
(In percent of deposits)**

	Gambia	Ghana	Guinea	Nigeria	S. Leone
Legal reserve requirement	16	9	5.5	12.5	10%
Qualifying assets:					
Central bank deposits	X	X	X		X
Cash in vault	X				X
Liquid asset requirement	30	35	None	40	40/20 ³¹
Qualifying assets:					
Central bank deposits	X	X			X
Cash in vault	X				X
Central bank bills	X				
Treasury bills	X	X			X
Government bills (shortdated) ³²					X
Call money, abroad	X				
Call money, discount house(s)		X			
Call money, interbank	X				

Source: WAMZ country authorities and WAMI

³¹ 40 per cent for demand and 20 percent for time and savings deposits.

³² Less than 180 days to maturity.

Examples of Supervision by Regional Central Bank or Independent Regional Agency

Among world-wide precedents for regional supervisory bodies, three should be considered: (i) the Banking Commission in the West African Economic and Monetary Union (BC), (ii) the Eastern Caribbean Central Bank (ECCB) and (iii) the European Union (EU).

Of these, the BC clearly is the most relevant case, as it not only is close geographically and in terms of the characteristics of its financial systems but, more importantly, it is a potential future merger partner for WAMZ. The BC is formally independent, although it works very closely with the regional central bank (BCEAO) and is chaired by the Governor of the BCEAO. The WAEMU model would seem appropriate also for the WAMZ.

ECCB is both monetary and supervisory authority in its eight small member countries and territories. Its long and successful track record in maintaining monetary and financial sector stability shows that it also is a model that may work well in WAMZ.

The EU model is a mixture of central and national authorities. The European Commission has set some common standards for regulations and supervision that have been ratified by the European Parliament but detailed regulation and implementation by and large has been left to national supervisory authorities, either central banks or independent supervisory agencies. With the creation of the European Central Bank (ECB), supervision thus has been separated from monetary policy—although ECB is seeking to strengthen its role in safeguarding financial sector stability. The EU arrangements are still in transition and do not seem applicable to WAMZ.

It has become “fashionable” around the world to introduce a single national supervisory authority, separate from the central bank, to cover all banking, insurance, securities and other non-bank financial intermediation. Such “umbrella” arrangements have been in place for some time in the Nordic countries and have in recent years been introduced in countries like Australia, the UK, Japan and Korea. These types of arrangements are particularly suitable for countries where financial conglomerates and financial-industrial groups are common and consolidated supervision is essential. This does not seem to be the case in the WAMZ, where most banking remain unitary and there is little cross-ownership between banks and insurance companies or other financial institutions.

In the three examples above, the BC and ECCB cover banks only; in both cases insurance companies are covered by separate national authorities. The EU arrangements are more complex but do cover insurance.