INTER-GOVERNMENTAL ACTION GROUP AGAINST
MONEY LAUNDERING IN WEST AFRICA

GIABA REPORT

A REVIEW OF THE STATE OF IMPLEMENTATION OF ANTIMONEY LAUNDERING MEASURES IN RELATION TO FINANCIAL INCLUSION IN GIABA MEMBER STATES



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EXECUTIVE SUMMARY

1. The FATF counter measures on money laundering and terrorist financing have been under scrutiny in the recent past as posing challenges to the financial inclusion drive. Mindful of the fact that majority of jurisdictions within its membership being emerging markets, developing countries, or low capacity countries, the FATF is making sure that these services are provided within the realm of some formal mechanism.
2. Financial service delivery through new payment methods provide the possibility of dramatically reducing cost and distance barriers to sustainably provide appropriate financial services to the poor and isolated communities. The transformation from cash to electronic value, stored and conveyed by mobile phones, is hitting developing countries. Apart from mobile phones, other branchless banking approaches are attracting attention as well.
3. Financial inclusion is the process by which the financially excluded, i.e., the unbanked, underserved and economically active rural dwellers in remote and isolated communities can access formal financial services at affordable cost to a range of services, including savings, credit, insurance, payments and transfers. These financial services are made available by regulated institutions subject to AML/CFT standards. Access to financial services insulates against poverty and is a master key to sustainable development.
4. Inclusive finance has the potential to leverage growth, poverty alleviation and development in the country. But it demands a much more sharpened regulatory policies anchored within the framework of innovation to reach out to the poor and disadvantaged. Internet banking, Agent banking, Mobile financial service, Micro Finance are possible innovative channels that would provide unprecedented power to reach new customers. For AML/CFT purposes, it is important that these financial products and services are provided within the framework of a formal regulated financial institution subject to adequate supervision in line with FATF standards.
5. The Standards on AML/CFT require financial institutions to take measures which have the most direct impact on financial access. The key elements of AML/CFT compliance for financial institutions includes: client due diligence at the outset of the relationship and on an ongoing basis, which involves among other things measures to identify their customers and verify their identities using reliable, independent source documents, data, or information; obtain information on the purpose and intended nature of business relationship, maintain comprehensive records of customer information and transactions, monitor transactions and where necessary file suspicious report with appropriate authority, should funds be suspected to be the proceeds of crime or linked to the financing of terrorism. However, the inappropriate implementation of these standards especially in low income country plays a role in excluding the vast majority of low income people from formal financial services.
6. The review seeks to assess the state of implementation of the Anti-Money Laundering Measures in line with steps taken to promote Financial Inclusion in GIABA member States. Consequently, efforts will be concentrated on understanding financial inclusion and the extent to which financial intermediation has been achieved in the region, by bringing an insight into the efforts of financial authorities to deepen the financial system and reach out to the unbanked and the economically active poor. The review will highlights the key FATF recommendations related to the promotion of inclusive finance and further examine the anti-money laundering measures put in place by the authorities and the challenges faced in their financial inclusion efforts considering the specific regional peculiarities and conditions.
7. The West Africa region is home to over 300 million people, more than a third of the Africa regions population. The entire region's GDP is one third of a trillion dollars, about the size of Thailand, Denmark and Columbia. Macroeconomic performance in West Africa has been encouraging in the last decade amid the global financial turmoil and some member

States facing unrest and political instability. Real GDP though moderate, however, grow steadily in most of the economies around 4 percent during 2002 to 2011 period. The regions inflation average in 2011 is 6.8 percent. Interest rates in the region are among the highest in the world and they are mostly not market determine but influence by some policy rate set by the central banks.

8. Financial services in the ECOWAS region are available to only 20 percent of its adult population. The size of the formal financial sector is 35 percent. The sector is dominated by banks comprising of more than 80 percent in both assets and activities. There has been a steady growth in the banking sector in the last decade. The growth in the number of banks in most countries has not been reflected in the countries effort to address the challenges pose by access to finance and credit. There have been several attempts by the financial authorities with support from various development partners to promote financial inclusion and stability in the region. Most of the Central banks in the region have developed a financial sector development strategic document and the implementations of these plans are on-going. The financial sectors of the member States are at various level of development.

9. The region has a monetary union with 8 of the 15 countries as members. The West African Economic and Monetary Union (WAEMU) shares a common currency, central bank (the Central Bank of West Africa, or BCEAO), and joint monetary policy. Regional financial and monetary integration is progressing. The non-WAEMU countries belong to the 2nd West African Monetary Zone (WAMZ), and have agreed to introduce a common currency, the ECO, by 2015.

10. Formal bank service is the most used system in GIABA member States. Deposits are more common than loans in all member States. Most non-bank payment service providers cannot provide services without bank intermediation. Even though the WAEMU region has a common modern payments infrastructure, which ought to facilitate widespread access to basic transactional payment instruments and transmission circuits, less than 10 percent of the its population owns a bank account.

11. The main challenges faced by the region's economies are: inadequate payment system infrastructure, weak frameworks for Know-Your-Customer (KYC) and Customer Due Diligence (CDD), poor record keeping, high transaction costs, the slow pace of transaction, profit maximization drive of financial businesses, staff incompetency and poor work ethic, lack of transparency of the service provider, lack of confidence in financial institutions, addiction to competing services in the informal sector, limited access to financial services due to location / poverty and the lack of basic financial literacy.

12. Other challenges related to AML/CFT implementations include limitations in identification infrastructure; limited government capacity; strict application by formal institutions; extent of formal financial services; and linkages to international partners and markets.

13. Opening a bank account, receiving a loan, withdrawing money or making a payment in most jurisdictions today still requires going to a bank branch, ATM, or a point-of-sale terminal. However, these access points are limited in the ECOWAS region. The key is finding alternative delivery channels that work for specific contexts and which may differ depending on the target audience. From the foregoing, the question that comes readily to mind is: "How can GIABA member States and their financial institutions design AML/CFT measures that meet the national goal of financial inclusion, without compromising the measures that exist for the purpose of combating ML/TF." In view of the above, we shall now examine the measures put in place by GIABA member States to address money laundering in the region.

14. The need to develop well balanced and proportionate AML/CFT regulatory frameworks, which reconcile financial inclusion's objectives with the AML/CFT requirements, is apparent. In order to meet these goals, any national AML/CFT regime needs to be tailored to the domestic circumstances. The FATF Recommendations set out a

comprehensive and consistent framework of measures which countries should implement in order to combat ML/TF, as well as the financing of proliferation of weapons of mass destruction.

15. In 2012, the FATF reviewed its Standards in close co-operation with the FSRBs and observer organizations. The 9 Special Recommendations have been integrated into the 40 Recommendations, with 2 Recommendations unique to terrorist financing and a third Recommendation dealing with financing the proliferation of weapons. The standards have been made clearer, while existing obligations strengthened. The recommendations that relate to the promotion of financial inclusion are in sections A (R1 & R2) and D (R9 to R23) which respectively, deal with the AML/CFT policies and coordination, and preventive measures of the recommendations.

16. A regional response to the prevention and combating of money laundering in West Africa began with the establishment of GIABA in the year 2000. In June 2010, GIABA was granted Associate Membership of the FATF. With GIABA's active prodding and guidance, all member States have promulgated laws criminalizing money laundering. On the financing of terrorism, GIABA designed with the assistance of its development partners, a model CFT law which was adopted by member States in June 2007. Almost all member States have formulated their CFT laws. In addition, most of the countries have ratified the various UN, AU and ECOWAS conventions relating to money laundering and financing of terrorism.

17. Thirteen of the 15 member States (MS) have established FIUs, though at different level of development. Five of the FIUs are now members of the Egmont Group. All member States have undergone mutual evaluation of their AML/CFT systems. Eleven out of 15 GIABA member States have developed a national AML/CFT strategy. The strategy is to assist member States to meet the basic standard requirement for the coordination of national policy in the fight against ML/TF. There has been tremendous increase in programme development and delivery in partnership with MS and the civil society.

18. GIABA has conducted over 5 typologies and several other studies in the region and more studies are being finalized. In 2012, the FATF undertook a joint typologies study with GIABA on the financing of terrorism in West Africa. Cooperation with both regional and international partners is much stronger and beneficial to the region. This is demonstrated by joint capacity building programmes for member States.

19. In conclusion, West African economies face considerable challenges in developing their respective financial sectors. The main challenges among others are: inadequate payment system infrastructure, weak frameworks for Know-Your-Customer (KYC) and Customer Due Diligence (CDD), poor record keeping, high transaction costs, among others.

20. GIABA member States should seize the opportunity offered by the flexibilities contained in the FATF Recommendations and establish policy guidelines and implementation measures according to their peculiar circumstances and legal frameworks. GIABA should consider engaging the central banks to create a working group on financial integrity as existing in other regions. Adopting phased or sequenced implementation plan for AML/CFT controls is recommended, considering that implementation of the ruled-based KYC and CDD measures is posing enormous challenges to financial inclusion.

21. The issue of capacity building and training for all stakeholders at all levels should be accorded serious attention. Governments should take steps to improve basic infrastructure in their respective countries. Finally, the challenges and weaknesses observed through the ME are not unconnected with the challenges that LCCs face.

BACKGROUND

1. The FATF counter measures on money laundering and terrorist financing have been under scrutiny in the recent past as posing challenges to the financial inclusion drive. Central to the agenda of the FATF is the fact that its global membership should have within their purview the widest possible range of money laundering and terrorist financing. This informed the guiding principle of financial sector integrity.

2. In addition to promoting financial services, is making sure that these services are provided within the realm of some formal mechanism. The FATF is mindful of the majority of jurisdictions within its membership being emerging markets, developing countries, or low capacity countries that could benefit from such new arrangement that facilitates the implementation of the standards with flexibilities depending on certain peculiarities of the country.

3. The FATF and its partners in wide consultation with other stakeholders, develop a series of guidelines in line with the G20 Nine- Principles for Innovative Financial Inclusion.

4. In Pittsburgh (Pennsylvania USA), the G-20[1] Leaders committed to improving access to financial services for the poor, by supporting the safe and sound spread of new modes of financial service delivery capable of reaching the poor. The G-20 launched its Financial Inclusion Experts Group (FIEG). Against the backdrop of the global financial crisis and economic downturn, G-20 summit agendas have focused on securing financial stability and rebuilding the trust of consumers. The establishment of the FIEG, and its two sub-groups on SME Finance and Access through Innovation, recognized the mutually reinforcing policy objectives of financial stability, financial inclusion and consumer protection.

5. Financial service delivery through new payment methods provide the possibility of dramatically reducing cost and distance barriers to sustainably provide appropriate financial services to the poor and isolated communities. This, inevitably, calls for a review of financial intermediation.

6. The transformation from cash to electronic value, stored and conveyed by mobile phones, is hitting developing countries too. In Kenya, the M-PESA mobile wallet service offered by Safaricom attracted I million users in 10 months in a country where fewer than 4 million people have bank accounts. And in the Philippines, the country's two mobile network operators offer the functional equivalent of small-scale transaction banking to an estimated 5.5 million customers.[2]

7. To reduce costs of providing financial services to the unbanked, underserved and financially excluded rural dwellers in remote and isolated communities, policy makers and regulators in other developing and emerging countries are faced with the challenge of preparing the grounds to accommodate the use of information and communication technologies (ICTs) and nonbank retail channels referred to as "transformational branchless banking," which is already at an advanced stage in developed economies.

8. Apart from mobile phones, other branchless banking approaches are attracting attention as well. The Brazilian banking sector has established more than 95,000 banking "correspondents" – local merchants, post offices and lottery dealers equipped with card-swipe and barcode-reading point-of-sale (POS) terminals. These new establishments provide access

[1] G-20 is a group of finance ministers and central bank governors from 20 major economies (for more details, see www.g20.org)

[2] Ibid.

to financial services to almost two thousand Brazilian municipalities that did not have any financial service outlets less than a decade ago.

9. From Afghanistan to Zambia, policy makers and regulators find themselves facing the question of how to approach regulating this new and fast-developing space at the convergence of technology and financial services. Regulation will go far in determining not only whether branchless banking is legally permitted, but also which models of branchless banking are economically feasible and how far they will go in reaching previously unserved or underserved poor people.

1.0 INTRODUCTION

10. Financial inclusion is the process by which the financially excluded, i.e., the unbanked, underserved and economically active rural dwellers in remote and isolated communities can access formal financial services at affordable cost to a range of services, including savings, short and long term credit, mortgages, insurance, payments, local money transfers and international remittances. These financial services are made available by regulated institutions subject to AML/CFT standards. Financial inclusion as a policy objective represents the current consensus in a long-standing debate on the contribution of finance to economic development and poverty reduction. It reflects the evolution of financial sector policies in developing countries over the past decades, and embodies important insights into the positive impact that financial services have on the lives of the poor. It is assumed that a bank account enables poor households to perform important financial functions such as saving money safely outside the house, accessing credit, making loan or premium payments, and transferring money (Mohan, 2006).

11. Access to financial services insulates against poverty and is a master key to sustainable development. Thus, the financial service sector is a key area and it is very vital for development. A well developed financial services industry is absolutely necessary to mobilize savings and allocate them to various investable channels and thereby promote development in a country. Financial services, through network of elements such as financial institutions, financial markets and financial instruments serve the needs of individuals, institutions and business enterprises. The financial service industry mobilizes the savings of customers and channels them into productive investments providing various services to the people. In fact, the economic development of a nation depends upon these savings and investments.

12. Inclusive finance has the potential to leverage growth, poverty alleviation and development in the country. But it demands a much more sharpened regulatory policies anchored within the framework of innovation to reach out to the poor and disadvantaged. Internet banking, Agent banking, Mobile financial service, Micro Finance are possible innovative channels that would provide unprecedented power to reach new customers.

13. For Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) purposes, it is important that these financial products and services are provided within the framework of a formal regulated financial institution subject to adequate supervision in line with FATF standards. Financial inclusion serves the objective of AML/CFT in the sense that, as more people become financially included, moving away from the underground/informal financial services (a ready conduit for illegitimate transactions that are undetected and undermine AML/CFT efforts), to the formal financial system makes it easier to detect and combat money laundering and terrorist financing.

14. The Standards on AML/CFT require financial institutions to take measures which have the most direct impact on financial access. The key elements of AML/CFT compliance for financial institutions includes: client due diligence at the outset of the relationship and on an ongoing basis, which involves among other things measures to identify their customers and verify their identities using reliable, independent source documents, data, or information; obtain information on the purpose and intended nature of business relationship, maintain comprehensive records of customer information and transactions, monitor transactions and where necessary file suspicious report with appropriate authority, should funds be suspected to be the proceeds of crime or linked to the financing of terrorism. However, the inappropriate implementation of these standards especially in low income country plays a role in excluding the vast majority of low income people from formal financial services. As a consequence, the underserved majority are relegated to the informal world of cash, undermining social and economic advancements and denying regulators and law enforcement a key means of strengthening the financial integrity; the ability to trace the movement of money.

1.1 The Purpose of the Review

15. The review seeks to assess the state of implementation of the Anti-Money Laundering Measures in line with steps taken to promote Financial Inclusion in GIABA member States. Consequently, efforts will be concentrated on understanding financial inclusion and the extent to which financial intermediation has been achieved in the region, by bringing an insight into the efforts of financial authorities to deepen the financial system and reach out to the unbanked and the economically active poor. The review will highlights the key FATF recommendations related to the promotion of inclusive finance and further examine the anti-money laundering measures put in place by the authorities and the challenges faced in their financial inclusion efforts considering the specific regional peculiarities and conditions.

2.0 THE STATE OF FINANCIAL INCLUSION IN GIABA MEMBER STATES

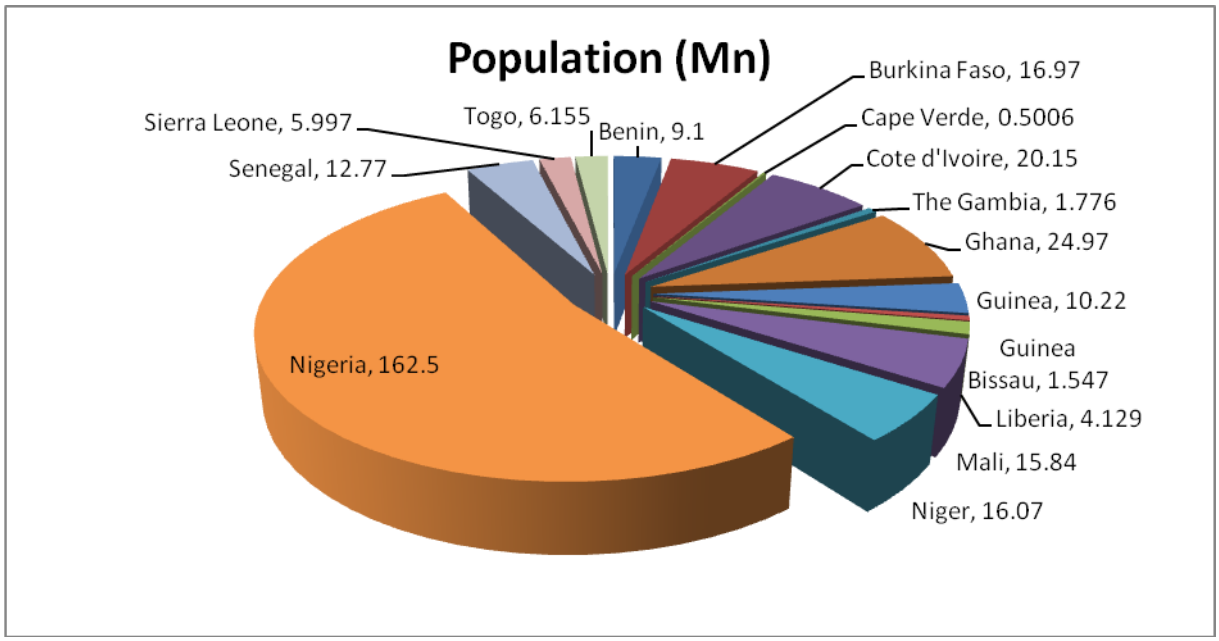
16. The West Africa region is home to over 300 million people, more than a third of the Africa regions population. Nigeria the most populous African country makes up for 62 percent of this number (see figure1). The entire region's GDP is one third of a trillion dollars, about the size of Thailand, Denmark and Columbia and less than that of South Africa, Norway or Argentina. The GDP of Nigeria is two third of the region (see figure2), without which the region GDP will be about the size of Hungary and less than that of New Zealand and Ukraine. The per capita incomes (PCI) of the regions average less than a thousand dollars with 10 out of 15 countries below the region's average. All the countries are classified as low income countries with the exception of Cabo Verde which is rated a middle income country. Ghana, Nigeria, Cote d'Ivoire and Senegal are however above the regions PCI average (see figure3).

17. Macroeconomic performance in West Africa has been encouraging in the last decade amid the global financial turmoil and some member States facing unrest and political instability. Real GDP though moderate, however, grow steadily in most of the economies around 4 percent[3] during 2002 to 2011 period. From figure4 below, the non WAEMU economies shows higher averages than their WAEMU counterparts. The reverse is also true

[3] Cote d'Ivoire, Guinea, Guinea Bissau and Togo are exception registering very low averages and negative growth in some years due to civil and political unrest for Cote d'Ivoire and Guinea and low yield as well as poor harvest during drought period.

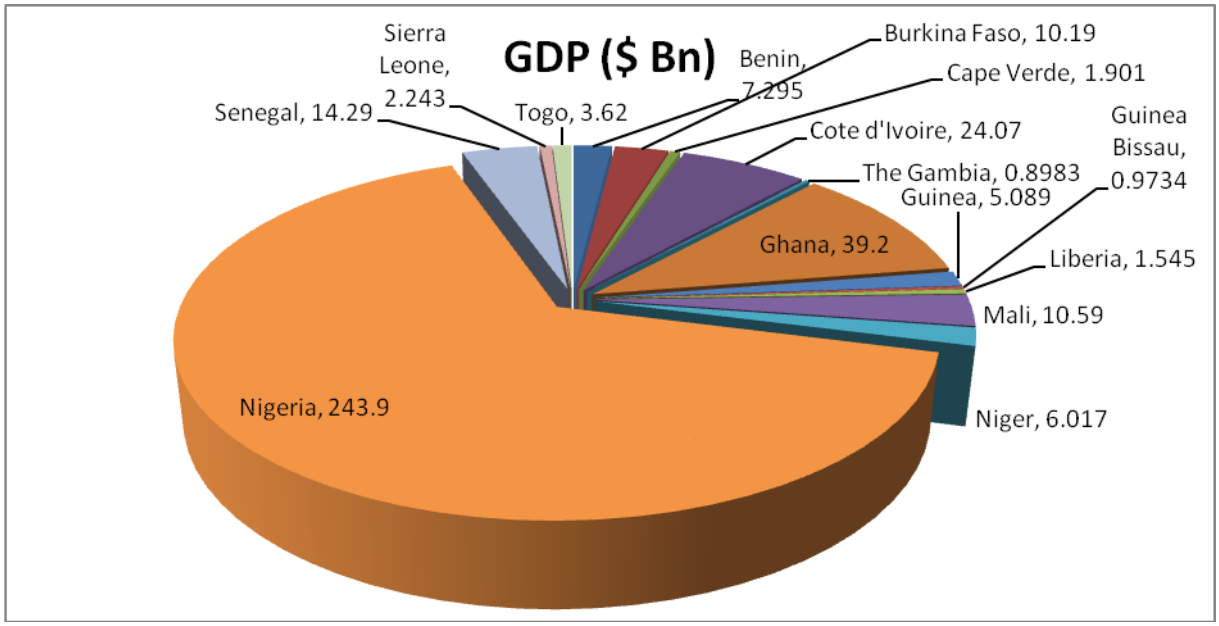
for Inflation with most WAEMU economies registering low inflation rate than their non WAEMU counterparts (figure4). The regions inflation average in 2011 is 6.8 percent, away from the convergence target of the ECOWAS region. The economies are mostly driven by primary production. With the exception of Cabo Verde and Senegal; economic growth in most of the MS has been largely sustained by the mining and the agricultural sectors. The above picture makes it imperative for West African economies to move towards the much needed diversified trend by focusing to develop other sectors that will assure more sustainable growth path.

Figure1: The Population figures of ECOWAS member States in millions



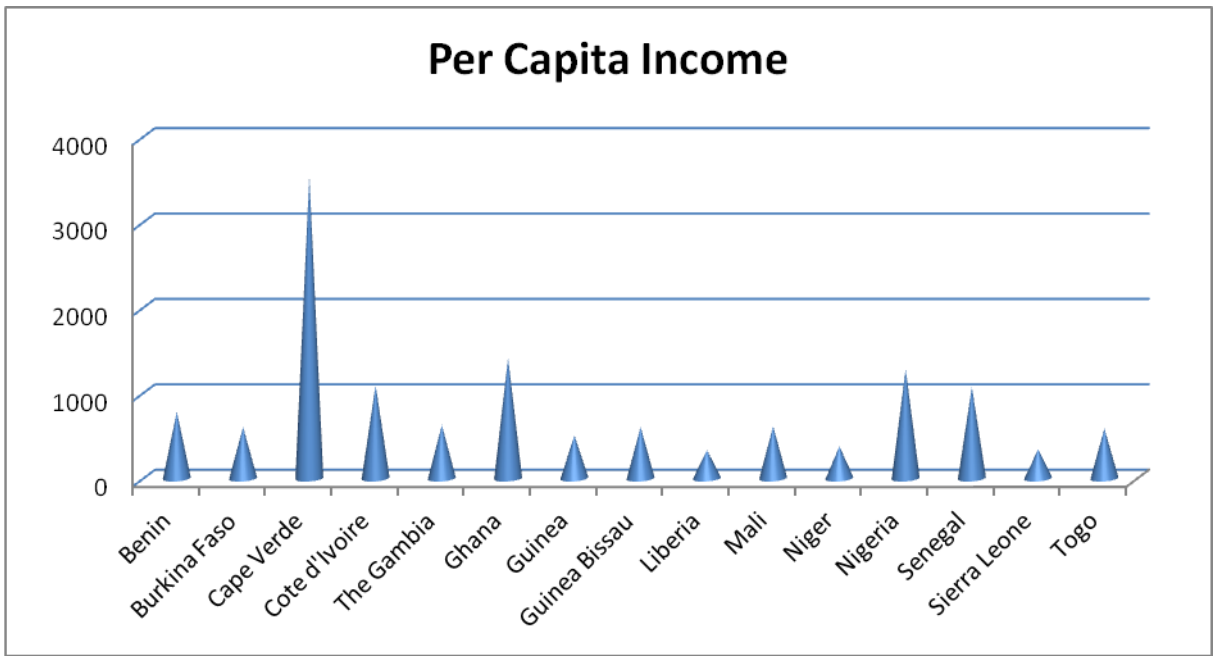
Source: Author's calculation from Central banks database

Figure2: The GDP in Billions of USD of ECOWAS member States



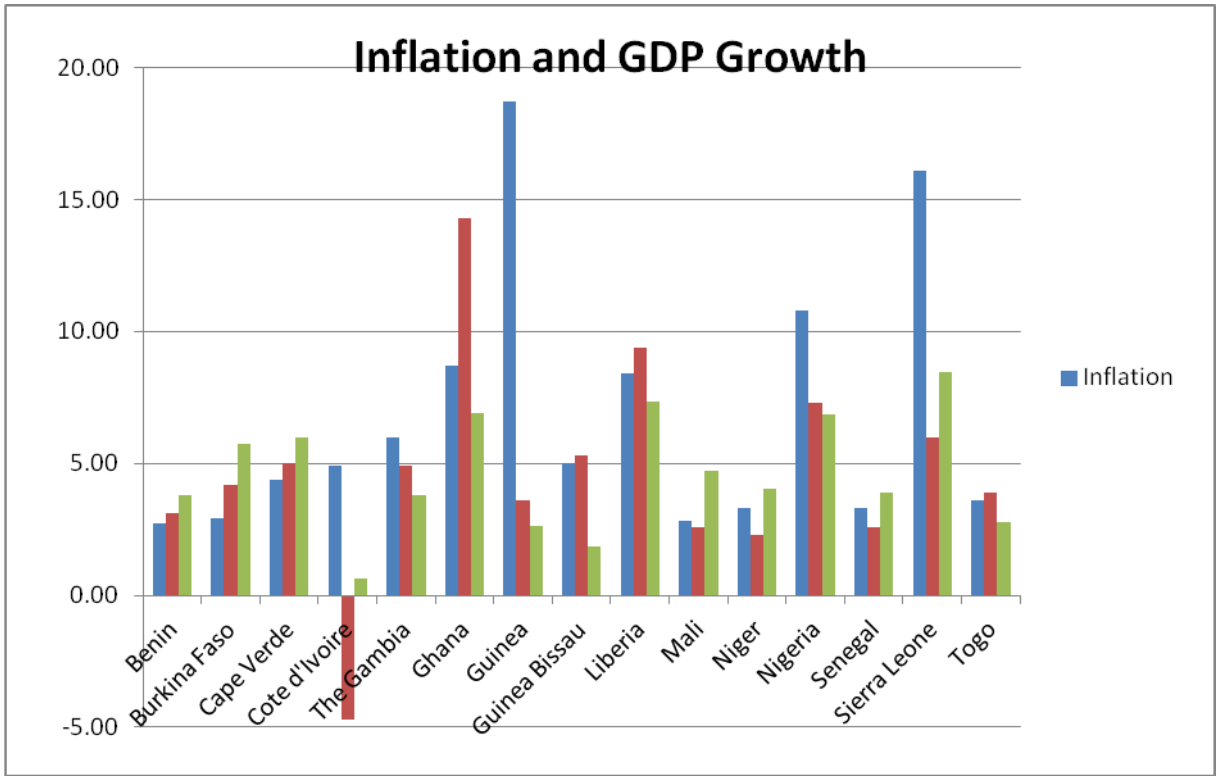
Source: Author's calculation from Central banks database

Figure3: Per Capita Income in ECOWAS member States



Source: Author's calculation from Central banks database

Figure4: inflation and GDP Growth in ECOWAS member States

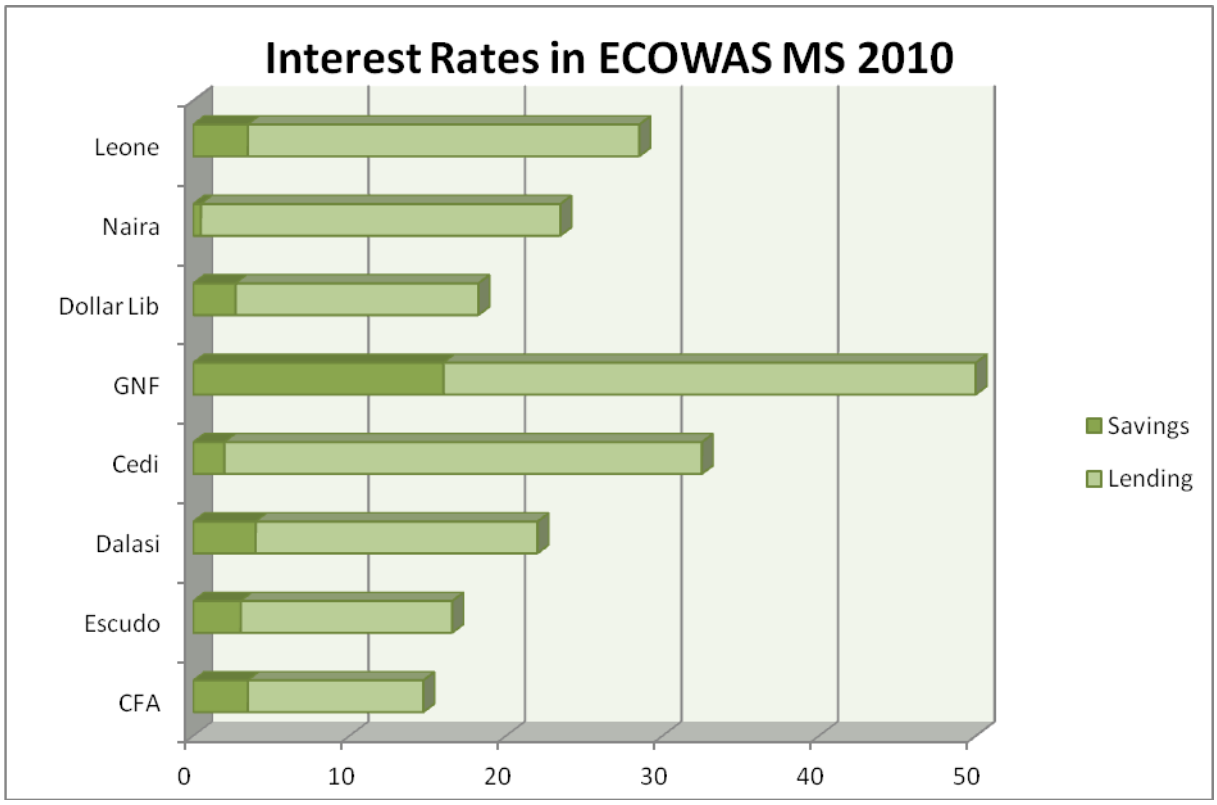


Source: Author's calculation from Central banks database

18. Interest rates in the region are among the highest in the world. As depicted in figure5, the disparity in the savings and lending rate continue to exacerbate largely due to fluctuations in inflation especially in the non WAEMU economies. The regional average savings rate is less than 5 percent with Nigeria having the lowest at 0.5 percent and 16 percent high in Guinea. The regions average lending rate is over 20 percent with WAEMU zone having the

least of about 11 percent, while Ghana and Guinea are over 30 percent. The interest rate are mostly not market determine but influence by some policy rate set by the central banks.

Figure5: Interest Rates in ECOWAS member Staes

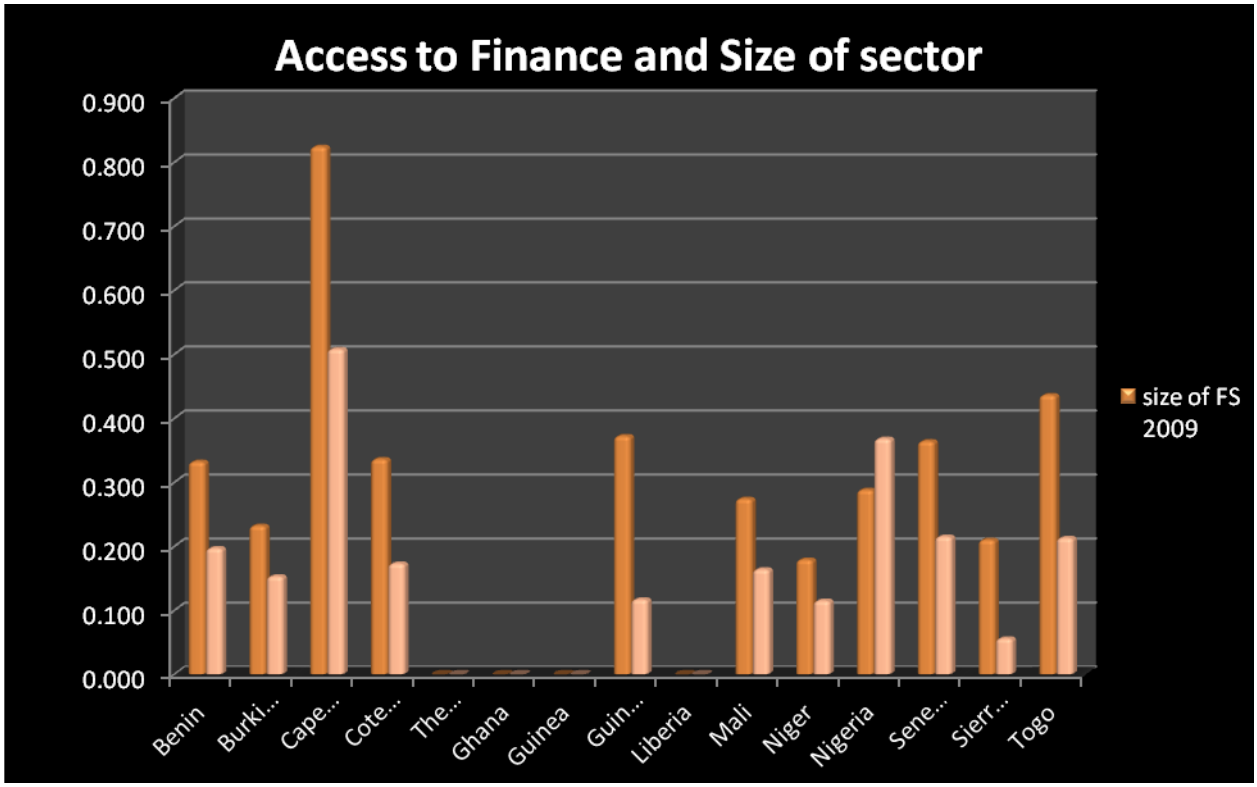


Source: Author's calculation from Central banks database

19. Financial services in the ECOWAS region are available to only a small segment of the population, with access to finance averaging only 20 percent ranging from 6 percent in Sierra Leone to 51 percent of the adult population in Cabo Verde (see figure6). The size of the formal financial sector averages around 35 percent in the region with Niger the lowest at 18 percent to over 80 percent in Cabo Verde. The sector is dominated by banks comprising of more than 80 percent in both assets and activities. There has been a steady growth in the banking sector in the last decade. With the exception of Nigeria which merge its banks in 2004 from 89 to 24 and now 21, the rest of the countries have witnessed an average growth of 30 percent since 2006 (figure7 below). Some countries like the Gambia and Sierra Leone doubled the number of banks during this period. The growth in the number of banks in most countries has not been reflected in the countries effort to address the challenges pose by access to finance and credit.

20. There have been several attempts by the financial authorities with support from various development partners to promote financial inclusion and stability in the region. Most of the Central banks in the region have developed a financial sector development strategic document and the implementations of these plans are on-going. The financial sectors of the member States are at various level of development. Even the WAEMU region which has been jointly implementing both policy and infrastructural issues are still at variant in terms of access to finance, the number of services available and how effective those services are provided.

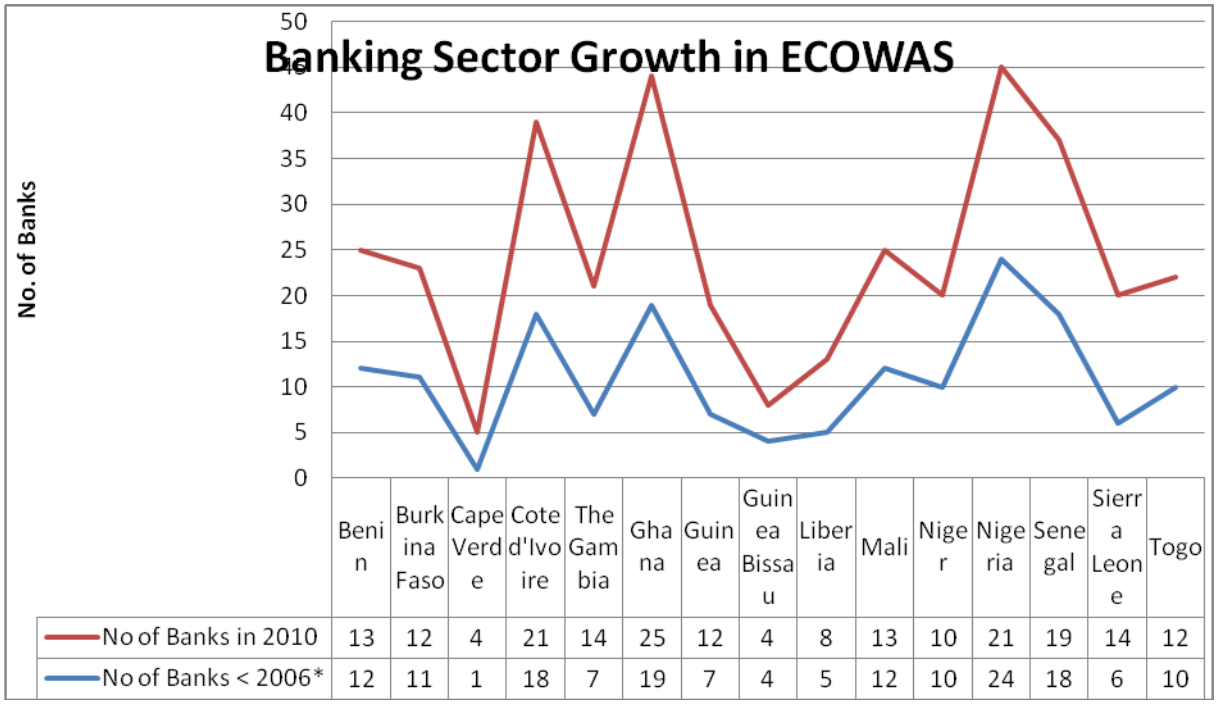
Figure6: The Banking Sector of ECOWAS member States*



Source: Author's calculation from Central banks database

Note: Data was not available for the Gambia, Ghana, Guinea and Liberia

Figure7: Size of the Financial Sector and Acess to Finance



	Benin	Burkina Faso	Cape Verde	Cote d'Ivoire	The Gambia	Ghana	Guinea	Guinea Bissau	Liberia	Mali	Niger	Nigeria	Senegal	Sierra Leone	Togo
No of Banks in 2010	13	12	4	21	14	25	12	4	8	13	10	21	19	14	12
No of Banks < 2006*	12	11	1	18	7	19	7	4	5	12	10	24	18	6	10

Source: Author's calculation from Central banks database

21. WAEMU countries currently have a world-class clearing and settlement infrastructure. However, the infrastructure remains markedly underused, and usage costs though lower than

before, remain relatively high. As a result, there is room for concerted efforts by all market players to focus on both reducing costs and improving access and usage. Despite the advantage of having a common currency, only some 16 percent of the population in the WAEMU zone have bank accounts.[4]

22. In the non-WAEMU countries, the situation is not different. In Nigeria, for example, access to finance is currently very low for both the poor and SMEs. Approximately 74 percent of the Nigerian population is unbanked, while only 7 percent of her adults can access loans. Despite the fact that 80 percent of Small and Medium Enterprises (SMEs) seek financing, only 5 percent are successful.[5]

23. In the West African region cash transactions remain dominant. Payments for intra-regional transactions are usually made in either local or foreign currencies, particularly the Euro and Dollar. In this context, economic operators, especially those in the informal sector are engaged in the free exchange of currencies in the thriving parallel markets, for the purpose of making cash payments for intra-regional transactions. The overwhelming dominance of cash transactions among economic operators in all sectors of the West African economies is indicative of a persistently low use of banking facilities and financial services. In most ECOWAS countries, only about 30 percent of its adult population use formal banking services. The dominance of cash transactions, which are characterized by informality and anonymity, makes the region vulnerable to money laundering and terrorist financing.[6]

24. The region has a monetary union with 8 of the 15 countries as members. The West African Economic and Monetary Union (WAEMU) shares a common currency, central bank (the Central Bank of West Africa, or BCEAO), and joint monetary policy with Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. The Central Bank, governments and regional banks all issue bonds and treasury bills, and member States have increasingly started to issue treasury bills to finance public spending in an effort to move away from Central Bank loans, though the BCEAO remains the most important issuing entity in the region. A legal framework regarding licensing, bank activities, organizational and capital requirements, inspections and sanctions applicable to all countries of WAEMU is in place.

25. The Bourse Régionale des Valeurs Mobilières (BRVM), headquartered in Abidjan, serves as the regional Stock Exchange for member countries of WAEMU. Trading is minimal with 45 company listings. Regional and national fixed incomes markets are still in their early development stages. Issuance by corporate entities remains limited. Investors can directly access primary markets, and various brokers and dealers provide indirect access, while foreign investors participate through local banks. Commercial banks still largely dominate the investor base as the main purchasers of treasury bills and bonds. Access to secondary markets within the WAEMU remains limited; transactions can only be conducted by certified intermediaries, while most investors adopt a buy-and-hold approach.

26. Regional financial and monetary integration is progressing. The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone belong to the 2nd West African Monetary Zone (WAMZ), and have agreed to introduce a common currency, the ECO, by 2015.

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[4] Lowering the Cost of Payments and Money Transfers in WAEMU, Thilasoni Benjamin Musuku, Maria Chiara Malaguti, Andrew McEwen Mason, and Ceu Pereira* July, 2011

[5] The Initiatives of the Central Bank of Nigeria in Promoting Financial Inclusion and AML/CFT Standards in Nigeria, Barr. Obot Udofia – Deputy Director Financial Policy and Regulation Dept, Central Bank of Nigeria, Abuja.

[6] GIABA 2010 Annual Report.

2.1 Financial Intermediation in GIABA member States

27. Formal bank service is the most used system in GIABA member States. Deposits are more common than loans in all member States. Although the number of deposits and loans per head is relatively low, the average size of loans and deposits relative to GDP per capita is relatively high. This suggests that the propensity to save in these countries is relatively high but is constrained by lack of access to financial services or suitable financial instruments. Lack of financial infrastructure is significant. The total number of bank branches and ATMs in the sub-region is very low compared to the same figures in high-income countries. Moreover, figures in ECOWAS countries are among the lowest. But when looking at the geographical coverage and penetration rates of bank branches and ATMs, the picture is less clear.[7]

28. Most non-bank payment service providers cannot provide services without bank intermediation. Lowering cross-border transaction costs in any monetary block or trade corridor is an important step in encouraging greater trade and enhanced use of formal financial services. The eight WAEMU countries use a common currency, the CFA Franc (FCFA). The currency is controlled and issued by the region's central bank, BCEAO. Additionally, WAEMU has a common modern payments infrastructure, which ought to facilitate widespread access to basic transactional payment instruments and transmission circuits.[8]

29. Achieving scale in financial services is generally acknowledged as being important to promoting financial sector development in Africa, to lower the cost of financial services, increase competition and innovation and increase access. According to a report by BCEAO, despite the region's high-quality electronic payment system infrastructure that can facilitate access to basic services less than 10 percent of the WAEMU population has a bank account.[9]

30. Most of the new mobile telephone-based services appear to be single country-based, at the on-set. This may be due to the fact that each country has its own telecommunications licensing and regulatory regime, and also the fact that every financial service is required to be separately licensed by BCEAO for each country in which it is offered.

31. Given the great variety, innovation and energy of the newer entrants into the payments market, there may appear to be little need for BCEAO to take specific measures to encourage new players or services. However, most of the players are motivated to expand market share for themselves, rather than growing the overall market. Thus, there is a public policy agenda here that BCEAO needs to address as part of its payment systems oversight function.

32. In WAEMU, the Banking Law builds regulation of payment services and systems around banking activities. Thus payment services are linked to a bank account. It is feared that extending payment services to non-financial institutions would render the application of AML/CFT measures more difficult.

33. Each of the non WAEMU countries has its own Currency, Central Bank, and formulates its own monetary policies. Nonetheless, they face intermediation difficulties similar to those of WAEMU member States indicated above. But given that they all are GIABA member countries, concerted efforts are being made across the board to deepen and

[7] ICT, Financial Inclusion, and Growth: Evidence from African Countries, *Mihasonirina Andrianaivo and Kangni Kpodar*

[8] Lowering the Cost of Payments and Money Transfers in WAEMU**, Thilasoni Benjamin Musuku, Maria Chiara Malaguti, Andrew McEwen Mason, and Ceu Pereira***

[9] Ibid

adopt financial policies that tally with FATF Recommendations on AML/CFT measures and financial inclusion.

2.2 Challenges

34. West African economies faced considerable challenges in developing their respective financial sectors, some of which has been already highlighted above. The main challenges are: inadequate payment system infrastructure, weak frameworks for Know-Your-Customer (KYC) and Customer Due Diligence (CDD), poor record keeping, high transaction costs, the slow pace of transaction, profit maximisation drive of financial businesses, staff incompetency and poor work ethic, lack of transparency of the service provider, lack of confidence in financial institutions, addiction to competing services in the informal sector, limited access to financial services due to location / poverty and the lack of basic financial literacy.

35. The aforementioned challenges can also be categorised into supply-side and demand-side factors. The demand-side factors are related to challenges that underpin widespread lack of access to basic financial services. Such challenges include poor identification and verification, high transaction costs and the slow pace of transaction in the formal financial sector, compared with little or no cost and the fast pace in the informal sector, lack of understanding of the operations of the formal sector, low and unstable incomes, the geographic location of service providers, and entrenched traditional norms that attributes financial services to elitism. These social issues have been methodically addressed in the national strategy papers of MS, such that if adequately implemented should produce the desired result.

36. Supply-side factors are related to commercial challenges, which impede the effective provision of these services. Among the supply-side challenges is the lack of adequate infrastructure for an effective and swift payment system. The existing payment methods are limited and the infrastructures that support the smooth operations of these methods are rudimentary in some countries. With the advent of modern technology, there is the need to improve on these infrastructures and adopt new payment methods. Another critical supply-side challenge is stringent AML/CFT-related KYC-CDD and record keeping requirements, which contributes to high transaction costs. To help reduce these costs, the FATF, FSRBs and international financial institutions, after consulting with the private sector operators, have prescribed the adoption of the Risk-Based-Approach (RBA).

37. Higher charges levied on transfers and delays due to bureaucracy in real time banking including transfers are other critical supply-side challenges that can be tackled with the risk-based approach applied. The issue of staff incompetency and lack of commitment is an administrative problem, and for any business to stay competitive going forward, it has to be prudent during recruitment and maintain a scrupulous training policy and a competitive staff management and welfare package.

38. Other challenges that are related to AML/CFT implementations include:

Limitations in Identification Infrastructure

39. Country-specific factors could unintentionally create barriers to financial access. Identity verification is easier and cheaper when there is a trusted, standardized national identification (ID) system, for instance a system based on national ID cards or a system combining various government and commercial databases. Many countries do not have such a

system, and even in nations that do issue ID documents; the documents may not be perceived as reliable.[10]

40. If there is no national ID system, or if the system lacks integrity, or if the database is not accessible, financial institutions often incur additional costs to verify CDD information. This may cause institutions to withdraw from low-value, lower profit transactions and markets. Furthermore, even countries with reliable national ID systems may fail to cover a significant percentage of low-income people or people in remote rural areas, leaving them without formal proof of identity and/or proof of formal residential addresses.[11]

41. The dynamic can be even more pronounced with some new business models that could expand access to financial services. For example, in some branchless banking models, clients may register and/or conduct transactions at a distance rather than face to face. These models rely on a minimum amount of client ID information that must then be verified against third-party databases, such as a national ID database or credit bureau databases. If such systems do not exist or if they lack integrity, regulators may not approve the business model.[12]

Limited Government capacity

42. Government capacity to supervise and enforce AML/CFT measures can affect its financial inclusion policy. This is particularly relevant in three areas.

- Supervision. With limited capacity, supervisors will tend to supervise entities that are easily accessible—typically the largest regulated entities. They may pay little attention to small, informal, and unregulated institutions. As a result, the compliance cost to supervised institutions will increase, with no similar increase to unsupervised institutions. This may cause well-supervised institutions to withdraw from low-income markets where they compete with unsupervised institutions. It may also lead businesses to seek relationships with well-supervised institutions rather than riskier unsupervised/unregulated institutions.

- Law enforcement. Law enforcement deficiencies usually mean that risk assessments are not based on actual information, but instead on hypotheses or international typologies. Without an objective understanding of the risks in their country, regulators tend to "play it safe," often adopting control measures that are more onerous than required.[13]

- Using AML/CFT controls to advance the formalization of the economy. AML/CFT controls require financial institutions to disclose client information to authorities to combat ML/TF. However, if this information is used for other purposes, such as combating tax evasion, clients whose tax affairs are not in good order may decide to remain outside the formal financial system.[14]

Strict Application by formal institutions

43. Large formal financial institutions tend to apply AML/CFT controls more rigidly than intended by the regulator. For instance, although national regulations may allow discretionary use of alternative documents to verify customers, institutions tend to limit discretion and the

[10] Op. cit.
[11] Op. cit.
[12] Op. cit.
[13] AL/CFT: Strengthening Financial Inclusion and Integrity.
[14] Ibid

types of documents accepted. When mistakes can lead to vast penalties and costs for the institution (and in some cases, for the compliance officer personally), frontline staff may not be trusted to use discretion and to decide which document is best to verify the details of a particular client.[15]

Extent of formal financial services

44. Especially in lesser developed economies, financial services are often provided informally through money lenders, informal money transfer operators, unregistered community finance organizations, and others. Low-income people often prefer to use informal financial services because of convenient locations, familiarity with the institutions and their services, and often fewer restrictions (such as ID requirements). Inappropriate AML/CFT measures can inadvertently push people away from formal financial services or create unnecessary barriers to those who want to begin using formal financial services.[16]

Linkages to international partners and markets

45. Countries have varying degrees of openness to international financial markets through cross-border commercial relationships, cross-border transactions, and foreign ownership of domestic institutions. Countries with more openness are likely to face more direct and indirect pressure to adopt AML/CFT controls that reflect those implemented by their parent institution and trading partners. The FATF recommendations guide financial institutions to ensure that AML/CFT principles are applied to their branches and majority-owned subsidiaries located abroad, especially in countries that do not apply or insufficiently apply these recommendations.[17] As a result, foreign parent companies often require domestic financial subsidiaries to implement controls that are designed abroad. If those controls are stricter than required by the ML/TF risks of the particular country, they may undermine its financial inclusion policy.[18]

46. In conclusion, opening a bank account, receiving a loan, withdrawing money or making a payment in most jurisdictions today still requires going to a bank branch, ATM, or a point-of-sale terminal. However, these access points are limited in developing countries. The key is finding alternative delivery channels that work for specific contexts and which may differ depending on the target audience. It also relates to changing financial habits. In that respect, one successful approach is to focus on changing how government payment such as wages, pension, and social and medical benefits are delivered in developing countries and for the purposes of this review in GIABA member States. [19]

47. From the foregoing, the question that comes readily to mind is: "How can GIABA member States and their financial institutions design AML/CFT measures that meet the national goal of financial inclusion, without compromising the measures that exist for the purpose of combating ML/TF."

48. In view of the above, we shall now examine the measures put in place by GIABA member States to address money laundering in the region

[15] Op. cit.
[16] Op. cit
[17] Recommendation 22 stipulates that application in remote areas and subsidiaries must be done to the extent that local laws and regulations permit. If such implementation is prohibited, financial institutions should advise competent authorities in the country of the parent institution that they cannot apply the FATF Recommendations.
[18] Op. cit
[19] Ibid

3.0 ANTI-MONEY LAUNDERING EFFORTS IN GIABA MEMBER STATES

49. The AML/CFT standards promote financial sector integrity, soundness and support the fight against crime. However, the inappropriateness in the implementation of these standards especially in developing economies has been identified as one of the several factors for excluding almost half of the world population from formal financial services. Poorly designed AML/CFT controls have the potency to deny the un-served majority access to the formal financial services, undermine social and economic advancements and reduce regulatory and law enforcement capacity; a key means of strengthening integrity (Isern and Koker, 2009).

50. Financial inclusion and effective AML/CFT regime can and should be complementary, and pursue mutual benefits within national policy objectives. Countries should tap the flexibility embedded in the international AML/CFT standards to enable them to craft effective and appropriate controls. The challenge anyway, is on how to determine the right mix for the two i.e., what level of protection is suitable for a particular financial environment?

51. AML/CFT measures are mechanism put in place to facilitate effective intermediation role of financial institutions, protect the integrity and soundness of the financial system, ensure that only genuine economic activities are undertaken and promote economic growth and development. It is therefore important to establish a balance between mechanism for money laundering prevention and the development of financial regulation, i.e., simplified know your customer (KYC) and Customer Due Diligence (CDD) requirements for specific transactions, products and financial services if applied appropriately, represent a lower risk for money laundering developing a mobile banking system , for example, with the appropriate AML/CFT regulation, has the potential of increasing financial inclusion (Shehu, 2012).

52. The most comprehensive multi-dimensional and multi-sectoral approach in the global efforts to combat money laundering has been the initiative of the FATF as contained in its 40 recommendations.[20] The recommendations provide a complete set of counter-measures against money laundering and terrorist financing, covering the criminal justice system and law enforcement, the financial system and its regulation, and international cooperation. The FATF Recommendations, although they do not represent a binding international convention, have been recognized, endorsed or adopted by over 182 countries and jurisdictions that have made a political commitment to combat money laundering and terrorist financing by implementing the FATF standards. The standards set out the principles of action by governments and competent authorities, and allow countries a measure of flexibility in implementing these principles according to their unique circumstances and constitutional frameworks.

53. The need to develop well balanced and proportionate AML/CFT regulatory frameworks, which reconcile financial inclusion's objectives with the AML/CFT requirements, is apparent. In order to meet these goals, any national AML/CFT regime needs to be tailored to the domestic circumstances. In particular the level of development of the market, the financial culture, the structure and capacity of formal financial institutions, but also the existence of a national infrastructure for the identification of the population, the specific exposure of the country to terrorist organisations or the cross-border movements of population have to be taken into account.

[20] The FATF is an intergovernmental body whose purpose is to develop and promote policies to combat money laundering. Established soon after the adoption of the UN Convention of 1988, the 40 recommendations were initially develop in 1990, revised in 1996, 2003 and most recently in 2012 taken into consideration the experiences gained over the previous years and to reflect the changes, which have occurred in the nature of money laundering.

3.1 Key FATF Recommendations related to the promotion of Financial Inclusion

54. The FATF Recommendations set out a comprehensive and consistent framework of measures which countries should implement in order to combat ML/TF, as well as the financing of proliferation of weapons of mass destruction. The recommendations set out the essential measures that countries should have in place to:

- Identify the risks, and develop policies and domestic coordination;
- Pursue ML, TF and the financing of proliferation;
- Apply preventive measures for the financial sector and other designated sectors;
- Establish powers and responsibilities for the competent authorities (e.g., investigative, law enforcement and supervisory authorities) and other institutional measures;
- Enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and
- Facilitate international cooperation.

55. In 2012, the FATF reviewed its Standards in close co-operation with the FSRBs and observer organisations. The 9 Special Recommendations have been integrated into the 40 Recommendations, with 2 Recommendations unique to terrorist financing and a third Recommendation dealing with financing the proliferation of weapons. The standards have been made clearer, while existing obligations strengthened. The recommendations that relate to the promotion of financial inclusion are in sections A (R1 & R2) and D (R9 to R23) which respectively, deal with the AML/CFT policies and coordination, and preventive measures of the recommendations.

56. R1 – Assessing risks and applying the RBA requires countries to identify, assess and understand the ML/TF risks for the country, and should take action, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively.

57. R2 – National cooperation and coordination requires country to have national AML/CFT policies, informed by the risks identified, which should be regularly reviewed, and should designate an authority or have a coordinated or other mechanism that is responsible for such policies. They should ensure that, policy-makers, the Financial Intelligence Units, Law Enforcement Agencies, Supervisors and other relevant competent authorities to cooperate and coordinate domestically in the development and implementation of policies and AML/CFT activities.

58. R9 – Financial institution secrecy laws requires countries ensure that financial institution secrecy laws do not inhibit implementation of the FATF Recommendations.

59. R10 – Customer due diligence requires financial institutions prohibited from keeping anonymous or fictitious name accounts. It requires FIs undertake Customer Due Diligence (CDD) measures when:

- Establishing business relations;
- Carrying out occasional transactions: (1) above the applicable designated threshold or (2) that are wire transfers in the circumstances covered by the interpretive note to Recommendation 16;
- There is a suspicion of money laundering or terrorist financing; or
- The financial institution has doubts about the veracity or adequacy of previously obtained customer identification data.

60. The principle that financial institutions should conduct CDD should be set out in Law. Each country may determine how it imposes specific CDD obligations, either through law or

enforceable means. The CDD measures to be taken are as follows:

- Identifying and verify the customer's identity;
- Identifying the beneficial owner;
- Understanding the purpose and intended nature of the business relationship; and
- Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship.

61. The risk-based approach (RBA) however can be applied to the above measures.

62. R11 – Record keeping, requires FIs maintain, for at least five years, all necessary records on transactions, both domestic and international, to enable them to comply swiftly with information requests from the competent authorities.

63. R12 – politically exposed persons - Financial institutions are required, in relation to foreign politically exposed persons (PEPs) (whether the customer or beneficial owner), in addition to performing normal customer due diligence measures, to:

a. Have appropriate risk-management system to determine whether the customer or the beneficial owner is a PEP;
b. Obtain senior management approval for establishing (or continuing, for existing customers) such business relationships;
c. Take reasonable measures to establish the source of wealth and fund; and
d. Conduct enhanced ongoing monitoring of the business relationship.

64. Financial Institutions (FIs) should be required to determine if a customer is a domestic PEP or has been entrusted with a prominent function by an international organisation. In cases of higher risk business relationship with such persons, FIs should be required to apply the measures b, c and d above. The requirements for all types of PEP should also apply to family members or close associates of such PEPs.

65. R13 – Correspondent banking requires FIs in relation to cross-border correspondent banking and other similar relationships, in addition to performing normal CDD measures, to:

- Gather information about respondent institution to understand the nature of business and determine the reputation of the institution and quality of the supervision;
- Access the respondent institution's AML/CFT controls;
- Obtain approval from senior management before establishing new correspondent relationship;
- Clearly understand the respective responsibilities of each institution; and
- With respect to "payable-through-accounts", be satisfied that the respondent bank has conducted CCD on the customers having direct access to accounts of the correspondent bank.

66. R14 – money or value transfer services (MVTS) requires countries to ensure that MVTS are licensed and registered, and subject to effective systems for monitoring and ensuring compliance with the relevant measures and apply sanctions to non licensed MVTS.

67. R15 – New technologies requires both countries and FIs to identify and assess the ML or TF risks that may arise in relation to (a) the development of new product and business practice, including the delivery mechanisms, and (b) the use of new or developing technologies for both new and pre-existing products. For FIs, such risk assessment should be done ex-ante to the introduction of the new products, business practice or new or developing technologies. They should take measures to manage and mitigate those risks.

68. R16 – Wire transfers requires countries ensure that FIs include accurate and required

information of both the originator and the beneficiary, on wire transfers and related messages, and such information remains with wire transfer throughout the payment chain. Countries should ensure FIs enforce the UNSCRs 1267 and 1373, relating to the prevention and suppression of terrorism and terrorism financing.

69. R17 – Reliance on third parties - Countries may permit FIs to rely on third parties but the responsibility of CDD measure rest on them, making sure the financial group meets requirements set in Recommendations 10 to 12, and 18.

70. R18 – Internal controls and foreign branches and subsidiaries requires FIs implement programs against ML/TF. Also requires financial groups implement group-wide programs against ML/TF, including policies and procedures for sharing information within the group for AML/CFT purposes.

71. R19 – High-risk countries requires FIs apply enhanced due diligence measures to business relationships and transactions with persons and FIs, from countries for which this is called for by the FATF. Enhanced due diligence and countermeasures should be effective and proportionate to the risks.

72. R20 – Suspicious Transactions (ST) reporting requires FIs report its STs to the FIU with promptness, if for any reason they suspect that funds are the proceeds of a criminal activity, or related to terrorist financing.

73. R21 – Tipping-off and confidentiality - Financial Institutions, their directors, officers and employees should be:

- Protected by law from criminal and civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicion in good faith to the FIU; and
- Prohibited by law from disclosing that STR is being filed with the FIU.

74. R22 – DNFBPs: customer due diligence - The CDD and record-keeping requirements set out in Recommendations 10, 11, 12, 15, and 17, apply to DNFBPs in the following situations:

- Casinos – financial transactions equal to or exceeding some threshold;
- Real estate agents – buying and selling of real estate on behalf of client;
- Dealers in precious metals and stones – involve in cash transaction above the threshold;
- Lawyers, notaries, other independent legal professionals and accountants – involve in transactions for their client concerning, buying and selling real estate, managing securities, accounts, creation of companies and business entities; and
- Trust and company service providers – when carrying out transaction for client concerning acting as, a formation agent of legal persons, director or secretary of a company, a trustee of an express trust of legal arrangement, a nominee shareholder for another person, and providing a registered office.

75. R23 – DNFBPs: Other measures - The requirements set out in Recommendations 18 to 21 apply to all DNFBPs, subject to STR obligation for: lawyers, notaries, other independent legal professionals and accounts; dealers in precious metals and stones; and trust and company service providers.

3.2 Regional and National Responses on the AML/CFT Phenomena

76. A regional response to the prevention and combating of money laundering in West African began with the establishment of GIABA in the year 2000. After the Abuja declaration in July 2004[21] that witness the commitment of ECOWAS member States to the fight against money laundering and resulted to the granting of GIABA an Observer status by the FATF, in acknowledgment of the efforts of ECOWAS in establishing effective AML/CFT coordination in the region. GIABA was also officially recognised as an FSRB and the removal of Nigeria from the NCCTs list[22] at the FATF Plenary in June 2006. These underscore the significant success that GIABA achieved in pursuing its regional AML/CFT mandate.

77. In June 2010, GIABA was granted Associate Membership of the FATF, a key objective among others set by GIABA in its 2007 – 2009 Strategic Plan. The attainment of this status was by no less, in recognition of the efforts made by the institution in the implementation of the FATF standards in ECOWAS region and this gives it a greater decision-making role within the FATF.

78. Some of the major achievements in the regional fight against AML/CFT are briefly described below:

79. The mandate of GIABA aims at promoting the rule of law and one of its priorities is to assist member States to enact legislation of acceptable international standard. With GIABA's active prodding and guidance, all member States have promulgated laws criminalising money laundering. Although some of the laws still require improvement to conform to acceptable international standards, what has been accomplished indicates significant progress in the regional efforts to combat money laundering. On the financing of terrorism, GIABA designed with the assistance of development partners, a model CFT law which was adopted by member States in June 2007. It is envisaged that all member States would have their CFT laws in place by the end of the first round of evaluations. In addition, most of the countries have ratified the various UN, AU and ECOWAS conventions relating to money laundering and financing of terrorism.

80. Thirteen of the 15 member States (MS) have established FIUs, though at different level of development. Five of the FIUs are now members of the Egmont Group.[23]

81. All member States have undergone mutual evaluation of their AML/CFT systems and the MERs can be found on the GIABA website.[24] The MERs however, identified acute deficiencies in all MS AML/CFT systems and this is manifested in the low level of compliance with the FATF recommendations. As part of follow up to these evaluations, the member States are required at periodic intervals to submit a follow-up reports (FURs) alongside an action plan to the GIABA Plenary on progress made in addressing the identified deficiencies reported on their AML/CFT systems.

82. In a bid to assist member States to meet the basic standard requirement for the coordination of national policy in the fight against ML/TF, GIABA has been providing technical assistance for the elaboration of national AML/CFT strategies. Similarly, a document to guide national authorities to set up an Inter-Ministerial Committee responsible for coordinating and monitoring the implementation of the activities of the national strategy

[21] Declaration on the Intergovernmental Action Group against Money Laundering in west Africa(GIABA), 52nd Session of the ECOWAS Council of Ministers, Abuja, Nigeria, July 2004

[22] Nigeria has been on the FATF Non-Collaborating Countries or Territories (NCCTs) list since 2001.

[23] The Egmont Group is a network of global financial intelligence units.

24 The ME of Cote d'Ivoire and Guinea Conakry were completed in May and June 2012 respectively and the MER would be submitted to the November 2012 Plenary of GIABA for approval, thereafter would be published on the website.

was developed by GIABA in 2008. Eleven out of 15 GIABA member States have developed a national AML/CFT strategy. Most of the strategies developed, with the exception of 2 countries, are yet to be adopted in their various jurisdictions due to either lack of fund or the non existence of an Inter-Ministerial Committee, and where there is one, is not functional.

83. There has been tremendous increase in programme development and delivery in partnership with MS and the civil society. In 2010, both programme delivery and beneficiaries from MS surged by 50 percent from 17 programmes and 614 beneficiaries in 2009 to 24 programmes and 948 beneficiaries in 2010, respectively. In 2011, the first year of the new Strategic cycle, programme delivery increased to 30 with 1135 beneficiaries.

84. GIABA has conducted over 5 typologies and several other studies in the region and more studies are being finalised. In 2012, the FATF agreed to undertake a joint typologies study with GIABA on the financing of terrorism in West Africa.

85. Cooperation with both regional and international partners is much stronger and beneficial to the region. This is demonstrated by joint capacity building programmes for member States. The Secretariat is in high gear when it comes to deliverables and this was made possible by an upsurge in both the administrative and operational capacity of the institution.

86. GIABA has implemented various capacity building programmes for member States to address the challenges of ML/FT since it became operational in 2004. While such capacity building has resulted in the development of national AML/CFT regimes, majority of these regimes are yet to start operating effectively against ML/TF and their predicate crimes. A most prominent debilitating factor for these regimes has been the chronic prevalence of public sector corruption in the region. Endemic corruption does not only generate illicit proceeds for laundering, but seriously undermines efforts to combat money laundering and terrorist financing by impairing the critical agencies and officials responsible for investigation, prosecution and adjudication of ML/TF cases.

4.0 CONCLUSION

87. The economies of GIABA member States are characterized by large informal sector presence and functions on cash transactions. Making the region a potential conduit for money laundering and terrorist financing. The pursuit of financial inclusion and that of an effective AML/CFT regime are complementary and not conflicting financial sector policy objectives.

88. West African economies face considerable challenges in developing their respective financial sectors. The main challenges among others are: inadequate payment system infrastructure, weak frameworks for Know-Your-Customer (KYC) and Customer Due Diligence (CDD), poor record keeping, high transaction costs, the slow pace of transaction, profit maximisation drive of financial businesses, staff incompetence and poor work ethic, lack of transparency of the service provider, lack of confidence in financial institutions, addiction to competing services in the informal sector, limited access to financial services due to location / poverty and the lack of basic financial literacy.

89. GIABA member States should seize the opportunity offered by flexibilities contained in the FATF Recommendations and establish policy guidelines and implementation measures according to their peculiar circumstances and legal frameworks. Financial inclusion should, however, not be achieved at the expense of the main task of combating money laundering and terrorist financing in the region.

90. GIABA should consider engaging the central banks to create a working group on financial integrity as existing in other regions. The group will be responsible to direct financial inclusion activities in the region, including conducting surveys, studies, developing guidelines and organising training.

91. Adopting phased or sequenced implementation plan for AML/CFT controls is recommended, considering that implementation of the ruled-based KYC and CDD measures is posing enormous challenges to financial inclusion. This will allow countries to implement key AML/CFT measures while improving their capacity to implement the remaining recommendations. All countries should endeavour to take the implementation exercise very seriously while developing financial services products at affordable costs designed to facilitate access to financial services by the poor, unbanked and underserved segments of the population in remote rural areas.

92. The issue of capacity development and training for legal, financial, banking, DNFBPs and enforcement agents at all levels should be accorded serious attention. Governments should take steps to improve basic infrastructure in their respective countries.

93. To achieve comprehensive financial inclusion, member States should establish measures to ensure credit inclusion for the disadvantaged and vulnerable section of the society. Financial inclusion should be approached cautiously as history has shown that uncontrolled and poorly governed financial growth set the stage for financial crises that impose significant costs on society.

94. Finally, the challenges and weaknesses observed through the ME are not unconnected with the challenges that LCCs face.

4.1 How can Financial Inclusion be promoted in West Africa?

95. To ensure effective implementation of AML/CFT controls and support for financial inclusion, policy makers should assess the capacity of financial service providers and financial sector regulators, as well as the coverage and integrity of the country's ID system.[25] Careful analysis can help a country design controls around the existing capacity of the relevant government agencies and service providers.

96. Member States should ensure that the design process is supported by political commitment to comprehensive AML/CFT measures and informed by a proper appraisal of institutional capacity and an assessment of the ML/TF risks. Oversight should be the responsibility of Government and not that of private institutions.

97. ECOWAS countries can use the flexibility built into the FATF recommendations to design approaches that do not impede financial access. A proportional approach could include modifying client documentation and verification requirements, simplifying complex record keeping requirements, and launching new service channels.

98. Member countries should build and strengthen the legal and regulatory infrastructure necessary to support the development and deployment of modern payment system as well as enhance necessary public awareness regarding their availability and benefits.

99. Central banks in the region should give greater attention to the development of the regional payment system and should continue to work with relevant authorities to remove the practical, political and technical barriers that currently impede the development of the

[25] Op. cit.

financial infrastructure. Effective, efficient, transparent and properly regulated payment systems in West Africa need continuous development in order to integrate financial sectors and economies of each country to promote growth.[26]

100. As only trust will enhance public confidence, and increase patronage of formal payment instruments, this trust must be built by implementation of the effective and comprehensive legal, regulatory and practical safety mechanisms that enhance reliability/efficiency and reduce the cost of using formal payment systems.

101. Cooperation between competent authorities, particularly law enforcement/security agencies and regulators in the region, should be enhanced to facilitate exchange of information and sharing of typologies reports, sanitized case studies and best practices on cross-border cash movement and payment systems.[27]

102. The banks should develop more non-cash products that appeal to a large segment of the society and which at the same time are compatible with national payments infrastructure. Banks and other financial institutions should simplify their documentation requirements and processes to encourage the informal businesses to use the formal financial system. For this to be achieved, regulatory support and forbearances would need to be provided.[28]

103. All countries should establish a fully operational and effectively functioning Financial Intelligence Units throughout the region as this will go a long way in helping to detect suspicious business transactions, while appropriate procedures for identifying and freezing terrorist assets will serve as deterrents.

104. Advocacy and financial literacy programmes through the Radio and TV Channels in official and local languages will educate the citizens up to the grassroots level on financial services and the benefits accruing from financial inclusion.

105. Recent innovations in financial service delivery (using new payment methods and networks of agents) provide the possibility of dramatically reducing cost and distance barriers to sustainably provide appropriate financial services to the poor and isolated communities. To achieve this, a review of financial intermediation is necessary.

[26] GIABA 2010 Annual Report
[27] Ibid.
[28] Op. cit.

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Appendix

THE INDIVIDUAL ECONOMIES OF GIABA MEMBER STATES

106. In **Benin**, the financial sector is dominated by banks, and in general remains shallow. However, a series of reforms were undertaken in the 1990s, which resulted in the consolidation of the banking sector and in the privatization of all state banks.[29] The twelve banks of the banking system of Benin have a total asset base of CFA 1,048 billion with an average of CFA 87.3 billion per bank.

107. Benin has a lively and diversified microfinance sector. Data from 2003 by the Central Bank stated a penetration rate of microfinance services of almost 60 percent. In 2006 the Ministry of Microfinance and Employment of Youth and Women counted 762 organizations with 1308 branches, including Cooperatives, NGOs, Savings/Credit Associations and government projects. Programmes for strengthening the sector are carried out on national and regional levels, such as the PRAFIDE (Programme Régional d'Appui à la finance Décentralisée). The microfinance sector is also subject to supervision through the Central Bank as well as the responsible Ministry for Microfinance and Employment of Youth and Women.

108. The insurance sector in Benin remains relatively small, with insurance premia equivalent to 1.2 percent of GDP. Eight insurance companies, two of which are majority-owned by foreign companies, are involved in the provision of life and non-life insurance products. The two largest insurance companies controlled almost two thirds of the entire market, reflecting a high degree of concentration. Insurance supervision is carried out through the Direction du Contrôle des Assurances, reporting to Benin's Ministry of Finance and the Commission Régionale de Contrôle des Assurances. Two pension funds operate in the country, one for civil servants, and the other mostly for salaried employees of private sector companies. The first covers approximately 30,000 people, while the latter about 15,000 people.

109. Remittances are an important source of foreign exchange for Benin. Formal remittances amounted to USD 173 million in 2006 (with USD 271 million estimated for 2008), equivalent to about 3.6 percent of GDP (4.1 percent for 2008).

110. **Burkina Faso** financial system is largely dominated by banks, accounting for around 90 percent of total financial system assets. The banking sector comprised of 12 commercial banks, with the three largest banks holding nearly 60 percent of total financial sector assets.[30] Banks are generally adequately capitalized, but remain vulnerable due to their overexposure to the cotton sector. Bank lending to the private sector also decreased by 2.3 percent, reflecting a more cautious lending attitude.

Key Financial Sector Indicators in West Africa

Country	Number of Deposit Money Banks	Bank Private Credit to GDP, 2010	DMB Assets to GDP, 2010	Financial System Deposits to GDP, 2010	Remittances (inflow) in $Mn 2011	Remittances (inflow) in $Mn 2012 (estimates)	Remittances as a share of GDP, 2011(%)

[29] http://globserver.cn/en/benin/finance

[30] http://www.mfw4a.org/country-focus/burkina-faso/burkina-faso-financial-sector-profile.html

	(DMBs), 2012						
Benin	13	22.09	27.31	26.61	185	189	2.5
Burkina Faso	12	16.45	18.40	20.77	111	101	1.1
Cabo Verde	4	59.19	74.37	77.26	178	200	9.4
Côte d'Ivoire	21	17.30	21.07	20.48	373	323	1.6
The Gambia	14	17.69	36.65	47.18	91	89	8.2
Ghana	25	13.72	23.80	13.42**	152	151	0.4
Guinea	12	3.47*	7.65*	9.71*	78	75	1.5
Guinea Bissau	4	5.77	7.54	11.23	46	42	4.7
Liberia	8	13.77***	15.97***	27.11***	360	378	31
Mali	13	17.36	19.40	19.89	473	451	4.5
Niger	10	11.84	12.74	11.17	102	95	1.7
Nigeria	21	30.33	40.26	25.35***	20,619	20,610	8.7
Senegal	19	24.51	28.87	28.92	1,478	1,379	10.3
Sierra Leone	14	9.22	15.39	19.24	77	80	3.4
Togo	12	20.65	28.89	31.44	337	330	9.4

111. Source: World Bank and West Africa Central Banks

112. * = 2005, **= 2006 and ***= 2009

113. Access to finance remains a major issue. World Bank estimates suggest that around 26 percent of the Burkinabe population has access to financial services. Access to microfinance is however expanding. According to BCEAO about 78 microfinance institutions (MFIs) operate in the country, serving around 1,779 thousand customers.

114. In Cabo Verde, the financial sector institutions include banks[31], para-banks, international financial institutions, insurance companies and capital market intermediaries. The financial sector of Cabo Verde has a sound and healthy banking sector. The first three of these institutions are branches of foreign banks. Private sector ownership of financial institutions is a relatively recent phenomenon in Cabo Verde. Up to 1993, the Banco de Cabo Verde (BCV) was both the monetary authority and the sole commercial banking entity. In 1993, BCV ceased its commercial banking activities which were taken over by Banco Comercial do Atlantico.

115. Two dominant commercial banks account for around 90 percent of assets and deposits. Credit is allocated on market terms and is available to foreign and domestic investors without discrimination. Credit to the private sector climbed to around 50% of GDP in 2006. The strength of the banking sector is evident in their lending operations, which have seen an impressive improvement of the ratio of non-performing loans, down from 30% in 1997 to 6.3% as of end 2005.

[31] Para-banks are financial institutions that are not allowed to accept deposits from the public.

116. There are two insurance companies in the Cabo Verde. Prior to 1990, insurance business was only conducted by a government entity. In 1990, this entity was privatized to become Garantia, one of the two insurance companies currently operating in Cabo Verde.

117. A stock market, Bolsa de Valores de Cabo Verde (BVC) was established in 1999. It currently has listings of 44 government treasury bonds and 4 local companies. The only members of the stock exchange are the four commercial banks that operate in the domestic market. The exchange uses a Euronex platform and an operational model that combines both the auction and quote driven systems. The securities traded on the stock exchange are dematerialized and all transactions are conducted through the banking accounts of the members. The stock exchange is owned by the government, which hopes to privatize it within the next two years.

118. A unique feature of financial sector activity in Cabo Verde is the role played by emigrant remittances, which represent a significant portion of the liabilities of the banking system. With more nationals living outside of the country than within, financial institutions receive a steady stream of remittances from the Cabo Verdean diaspora. All available evidence suggests that the funds come directly into the banking system as the authorities have no evidence that there is an informal funds transfers system. The law requires remittances services to be provided by either banks or para-banks. Remittance services in Cabo Verde are undertaken by four institutions under agency arrangements with Western Union.

119. The **Ivorian** financial sector which is largely banks, consist of 19 banks, five of which were domestic-owned. Domestic banks accounted for 21 percent of total assets and for their great majority liquidity levels remained below prudential levels.[32]

120. Progress has been recently made in restructuring undercapitalized banks and strengthening the banking system. Two of the five domestic banks, which had negative net worth at the end of June 2008, formulated recapitalization plans approved by the Banking Commission. One bank is currently under interim administration and the remaining two are being taken over by the government through conversion of illiquid deposits into share capital.

121. The provision of financial services in rural areas, to small and medium sized enterprises, as well as the mobilization of long-term savings and the financing of long-term investment is still low. The microfinance sector, in particular, has been severely affected by the conflict and related lack of smooth funding flows. Approximately 90 percent of credit and savings activities are concentrated in just two cooperative networks, which currently face difficulties, and constitute a systematic risk for the microfinance sector. To reverse this trend, the Ministry of Finance issued a National Microfinance Policy at the end of 2007 along with a detailed Strategy and Action Plan for 2007-2015 aiming at achieving a viable, integrated and diversified microfinance sector with penetration over the whole country by 2015.

122. The mobile market in Cote d'Ivoire is very competitive and fragmented. In December 2008, Orange Cote d'Ivoire launched its new mobile money product, Orange Money. MTN also has plans to launch its Mobile Money product in West Africa, in the near future.

123. The stability and the viability of the country's insurance sector and the public pension funds are at risk. The insurance sector suffers from under pricing and difficulty in settling damages, low minimum capital requirements, and lack of strong regulation that facilitates prompt liquidation of failed companies.

[32] http://www.mfw4a.org/country-focus/cote-d-ivoire/cote-d-ivoire-financial-sector-profile.html

124. **The Gambia's** financial system, which remains small but sound, comprising of 14 commercial banks, including 1 Islamic bank, 11 insurance companies, around 46 foreign-exchange bureaus, a post-office savings scheme, 57 savings-and-credit associations, and 5 microfinance institutions.[33] The sector continues to be largely dominated by the commercial banks, the majority of which are foreign-owned. Dollarization is relatively high, with the ratio of foreign currency denominated deposits amounting to about 15.5 percent of total bank deposits by the end-September 2009.

125. The Gambian banking sector has experienced rapid growth over the past few years, driven by important foreign direct investment inflows and intensified competition, with the number of banks doubling between 2007 and early 2010. This growth has helped deepen financial intermediation, and provision of credit to the private and public sectors has grown by around 4.5 percent a year over the period to reach 17 percent of GDP. But this rapid expansion has also strained the Central Bank's supervisory capacities and intensifying competition in the banking sector has contributed to increased risk taking.

126. The banking sector remains generally adequately capitalized, with a capital adequacy ratio of 19 percent and a sector wide risk-weighted capital adequacy ratio of 33.9 percent by mid 2009. Net foreign assets held by deposit money banks also experienced a significant increase in 2009, rising by 43.6 percent. Interest rate spreads remain high, with the average one-year lending rate at around 22.5 percent in 2009 compared to an average one-year deposit rate of 10.8 percent.

127. The Central Bank of the Gambia has been actively pursuing a series of financial and banking sector reforms to preserve solvency and increase stability. These measures include the establishment of the Credit Reference Bureau (CRB) in July 2009, a tripling of capital requirements over the 2010-2012 periods, the revision of supervisory processes with an emphasis on on-site, and the introduction of a new payments-system.

128. The microfinance sector has experienced significant growth in the past few years. By 2008, Village Savings and Credit Associations (VISACAs) and microfinance institutions (MFIs) reached about 82 percent of households, up from 42 percent in 2003, and total registered deposits increased by an average of 46 percent a year between 2001 and 2008. However, outstanding loans remain limited, representing less than 6.7 percent of the volume of outstanding loans from commercial banks. The sector remains largely unregulated, although the Central Bank has recently established prudential guidelines that aim at reducing barriers to the entry of new non-bank institutions into the sector.

129. The Gambia has a relatively sizable diaspora of around 0.5 million and remittances play a significant role in the country's economy. The volume of remittances represented about 8 percent of GDP in 2008, although this appears to have declined to an estimated 6 percent of GDP in 2009

130. **Ghana** has a relatively developed and growing banking system (the third largest in West Africa), comprising both domestic entities and subsidiaries of international banks.[34] There are 25 registered banks in Ghana as at 2009 with the minimum capitalization expected to total over GH¢935 million by the end of 2009. Total assets of the banking sector grew by

33 http://www.mfw4a.org/country-focus/gambia/gambia-financial-sector-profile.html

[34] http://fic.wharton.upenn.edu/fic/africa/Ghana%20Final.pdf

27.1% to US$10.4 billion at the end of May 2010.[35] There is one universal/offshore bank, 24 universal banks and 135 rural/community banks (BOG, 2010). The ARB Apex Bank Ltd is the mini Central Bank regulating the Rural/ Community Banks (RCBs). The top ten banks in Ghana have extensive correspondent relationships with the US, Europe, Asia and Africa, and eight branches of foreign banks operate in Ghana.[36]

131. In order to develop the financial sector, the government introduced an International Financial Services Centre, which to date has granted one license.[37] The wider financial sector includes 45 non-bank financial institutions, 273 bureaux de change, 62 insurance companies and 18 broker-dealers. Although the Ghana Stock Exchange has been a source of finance for corporations, it remains small, with just 36 companies being listed.[38]

132. In 2000 the Asset to GDP ratio stood at 43.6 percent and by the end of 2008, the ratio had scaled upwards to 65.6 percent. Over the same period (2000 - 2008), credit availability to the Private Sector saw a considerable expansion to 30 percent of GDP from 13 percent in 2000. Increasing banking competition has led to an extraordinary growth in branch network, (increased by 63% in the last two years) leading to growths in deposits, which increased by 41% in 2008, albeit, down from the 45% recorded in 2007.

133.

134. Ghana currently does not have a deposit insurance program in place. Rather, the central bank uses Capital Adequacy regulations to ensure the protection of funds deposited at the bank. Till 2006, the capital adequacy program required that Banks keep 9% of their assets in primary reserves of cash lodged at the Bank of Ghana, and a further 35% in secondary reserves of Government securities and maturities. Primary reserves receive no interest, while secondary reserves receive only the going market rate. The banks pass on the costs of these regulatory constraints on their liquid assets through high lending rates to consumers (borrowers).

135. **Guinea's** financial system is small and dominated by the banking sector. The financial system comprises of 12 commercial banks, 6 insurance firms, 13 microfinance institutions, 3 money-transfer companies and 4 currency exchange offices.[39] A large part of commercial banks that operate in the country are foreign-owned. Despite volatility, commercial banks have appeared to be resilient to past shocks. As of 2008, Banks met minimum capital requirements and their foreign exchange exposure remained within prudential limits. Non-performing loans, however, were as high as 30 percent, based on 2007 data. The Central Bank increased monitoring and regulation of banks and microfinance bodies in 2011 to boost the financial system so it could meet the growing general need for funding, especially among private firms.

136. Commercial banks offer a limited range of affordable consumer credit products and, as of 2007, credit to the private sector stood at less than 10 percent of GDP. Due to the difficulty of accessing funding from commercial banks, small commercial and agricultural enterprises have increasingly turned to microfinance, which has been growing rapidly. As of 2007, eight microfinance institutions (MFIs) reported nearly 100,000 active borrowers and portfolios totaling nearly USD 12 million.

[35] Central Bank of Ghana Governor July 2010
[36] Bankers' Almanac
[37] BoG Department Research Paper (Oct. 2008)
[38] GIABA Annual Report 201
[39] http://www.africaneconomicoutlook.org/en/countries/west-africa/guinea/

137. **Guinea–Bissau's** small financial sector is poorly developed and financial intermediation remains low. As of 2009, financial system deposits represented about 20 percent of GDP. There are 4 commercial banks, 15 agencies and more than 100 microfinance institutions operating in the country, but high credit costs and scarce access to financing plague the sector and impede dynamic entrepreneurial activity.[40] Lending interest rates are the highest in the WAEMU region, hovering between 10 percent and 14 percent, while only about 11 percent of the population has access to banking services.

138. The banking sector, which continues to be very liquid, has been expanding in recent years. The bank deposits to GDP ratio has increased from 14.8 percent in 2008 to 20.5 percent in 2009, while the volume of private sector credit has risen from 14.2 percent of GDP in 2008 to 16.1 percent 2009. Increased competition has also pushed banks to offer improved financing options and expand their branch network. The first bank branch outside of Bissau, the country's capital, opened in May 2009.

139. **Liberia's** financial system is shallow and financial intermediation is low while the high cost of credit and scarce access to financing, particularly in the case of small and medium enterprises (SMEs), continues to impede entrepreneurial activity and private sector development. Poor infrastructure still represents a major impediment to the expansion of financial services across the country. Although banks are highly liquid, low competition, combined with borrowers' high risk profiles, has led to interest rate savings-credit spreads of up to 14 percent.

140. Financial sector access has however gradually increased in recent years, supported by substantial improvements in legal and regulatory frameworks. The banking system has continued to expand, with access to SME lending, microfinance and mobile banking on the rise. New bank entrants and increased competition in the sector is also pushing banks to expand their networks, with the number of bank branches rising from 28 in 2008 to 55 in 2009, and introduce new products and services to attract a larger clientele. Mobile banking capacities are expanding, with one carrier introducing mobile money transfer services in April 2010.

141. The Liberian financial system is dominated by the banking sector. Eight commercial banks currently operate in the country, 7 of which are foreign owned. The only domestic bank currently is owned by the government. The industry's capital adequacy ratio, at 28.4 percent in late 2009, up from 21.9 percent in 2008, continued to be well above the minimum regulatory 10 percent requirement, while the ratio of non-performing loans relative to total loans of commercial banks continued to decline, falling from 17.4 percent in 2008 to 10.9 percent in late 2009.

142. Substantial progress has been achieved in strengthening the banking sector, including the adoption of a national corporate governance framework and increasing the regulatory capital adequacy ratio and the minimum capital requirements (raised to 10 million USD for operating banks in 2010). Regulations limit investment of bank assets abroad to 50 percent for foreign currency deposits in banks receiving an "A" credit rating. Measures have also been implemented to improve supervision of the banking system, including a requirement for semi-annual on-site examinations of all operating banks.

143. The Liberian capital market, which had been wiped out by years of conflict, is now in the very early stages of re-emergence. As of yet there is no Stock Exchange or effective fixed

40http://www.mfw4a.org/country-focus/guinea-bissau/guinea-bissau-financial-sector-profile.html

income market in the country; though authorities are actively developing the necessary infrastructure to start issuing short term treasury bills. With no government securities issued, the country receives no sovereign rating by any of the major credit rating agencies as of April 2011.

144. **Mali's** financial sector is shallow, with low levels of intermediation and limited access to finance. As of 2009, less than 17 percent of Malian adults had a bank deposit account. The credit to the economy to GDP ratio, at around 18 percent, is low, and expansion of financial intermediation has levelled off since 2003.[41]

145. Banking dominates the Malian financial system. State participation in credit institutions remains extensive; of all banks active in the country, only 3 are privately owned. Several institutions are excessively liquid, insufficiently capitalized, show signs of vulnerability to exogenous shocks, and are often in breach of prudential norms. Loan portfolios are generally highly concentrated, with particularly high exposures to the cotton sector.

146. Authorities have, in the past few years, engaged in a series of banking sector reforms in the hopes of enhancing the efficiency and soundness of the financial sector, increasing private ownership, and expanding access to bank credit. Several bank restructuring and privatization processes are currently underway, with the successful privatization of the "Banque Internationale pour le Mali (BIM SA)" completed in 2008.

147. **Niger's** financial system remains weak and fragmented. The number of available financial instruments is limited, and scarce access to financing hinders dynamic business activity. Access to finance is limited, with less than 12 percent of the population using any form of financial products.[42] In an effort to expand access to finance, the government has established a Microfinance Regulation Agency with a mandate to supervise and strengthen the sector.

148. As in most low-income African countries, the banking sector is heavily concentrated and dominates the financial sector. Together, the four major commercial banks control about 90 percent of total financial sector assets. The country's deposit to GDP ratio is among the lowest in the WAEMU.

149. Official remittance inflows play a minor role in Niger's economy. 2009 estimates indicate that annual remittances were roughly equivalent to 1.14 percent of GDP.

150. **Nigeria's** financial sector has undergone significant changes in recent years. In 2005-2006, the banking sector went through major consolidation, which reduced the number of banks from 89 to 24 and considerably increased capitalization. As a result of consolidation, financial intermediation levels increased significantly: the number of bank branches almost doubled to about 5,810 in 2011, and banks engaged in a range of new activities, including the financing of infrastructure and oil projects, which has previously been out of their reach.[43] The rapid expansion of banks' private sector credit portfolio (from 21 percent to 50 percent of non-oil GDP by the end of 2008), in addition to their considerable cross-border activities (with subsidiaries and branches in the ECOWAS region, Southern Africa, Central Africa,

[41] http://www.mfw4a.org/country-focus/mali/mali-financial-sector-profile.html

[42] http://www.mfw4a.org/country-focus/niger/niger-financial-sector-profile.html

[43] http://www.mfw4a.org/country-focus/nigeria/nigeria-financial-sector-profile.html

Europe and North America, has exposed the need for a strengthened supervisory role for the Central Bank, which has developed a plan for consolidated and risk-based supervision. In addition, banks have been required to adopt the International Financial Reporting Standards (IFRS) as of the beginning of 2010.

151. Nigerian capital markets are not fully developed, but the country's Stock Exchange is increasingly active. The Nigerian equity market boomed in 2007 and early 2008 with average return rates of 75 percent, well above those of South Africa and Ghana, but then plunged in the second half of 2008 as oil prices fell and the global financial crisis spread.

152. The investor base continues to be dominated by the banking sector which held more than 60 percent of securities in June 2009. Foreign investors are allowed on the bond market but are restricted to government securities with maturities longer than one year, but can also invest in short-term commercial papers and negotiable certificates of deposit, and are subject to a lock-in period of one year for their first investment. Retail investors, for their part, can access government securities through the intermediary of mutual fund and sub-accounts of primary dealers.

153. The pension fund industry in Nigeria is expanding and 19 firms currently manage pension funds. Regulations require the industry to hold 65 percent of investments in treasury paper, and can invest up to 5 percent of assets in eligible debt instruments issued by any one State government.

154. **Senegal's** financial sector is still much segmented, consisting of a diversified range of institutions that are not yet fully integrated, and access to financial systems remains problematic. The country's banking sector has emerged as a major player in the WAEMU region, with 25 percent of the region's banking assets located in the country, accounting for about one third of total profits.[44] The financial crisis appears to have had negligible effects on the banking system, but slowdowns in economic growth have caused deterioration in bank loan quality. Like other countries in the WAEMU, compliance with prudential requirements has been mixed in the past, though most of Senegal's banks are on track to meet the higher minimum capital requirements set by new rules and regulations.

155. The country enjoys a dynamic microfinance sector with large microfinance institutions (MFIs) that are sound and profitable, but smaller ones are fragile and supervision of the sector calls for strengthening. Access to finance for small and medium enterprises (SMEs) remains a challenge, with an estimated 80 percent of bank credit applications being denied because of insufficient collateral.

156. The Senegalese insurance industry accounts for a small part of the country's financial system with total insurance premiums amount to 1.4 percent of GDP. Penetration rates remain low, although life insurance products are becoming more wide-spread amongst the population thanks to a 2002 change in their tax treatment. As of 2008, six life insurance and sixteen non-life insurance companies were active in Senegal, all of which were represented by the Senegalese Federation of Insurance Companies (Federation Sénégalaise des Sociétés d'Assurance, FSSA). The industry is supervised by the Inter-African Conference on Insurance Markets (Conférence Interafricaine des Marches d'Assurance, CIMA), a supranational body that governs the insurance sector in 16 countries, of which Senegal is the third largest member.

[44] http://www.mfw4a.org/country-focus/senegal/senegal-financial-sector-profile.html

157. Remittances to Senegal amounted to an estimated 10.5 percent of GDP in 2009. 15 percent of the population lives and works abroad and regularly sends money home or invests in real estate, contributing to the construction boom that the country has witnessed in recent years.

158. The **Sierra Leone** financial system consists mainly of the banking and insurance sectors, each under the supervision of a separate regulatory authority. As of 2010, 14 commercial banks operated in the country. Other financial institutions include; 9 Community Banks, 2 Discount Houses, 10 insurance companies, 39 licensed foreign exchange bureaus, 9 licensed Microfinance institutions including 2 deposit taking institutions (Ecobank microfinance, Bank for innovation and partnership), 1 mortgage company and 1 finance leasing Company and a fledging stock exchange established in 2007. The extent of outreach by this sector indicates that access to finance in the rural areas to support the poor, micro enterprises and agricultural sector which employs about 70% is limited. As at 31st December 2011, there were 513,504 bank accounts in the country. The commercial banks' branch network stood at 86, which means that Sierra Leone has one of the lowest bank branch penetration rates in Africa with one branch per 68,500 people.

159. Sierra Leone adopted a comprehensive strategy for reform of the financial sector in 2008, aimed at strengthening banking supervision, enhancing competition, increasing access to commercial bank credit, and improving the payment system. The Central Bank also raised the minimum capital requirements for all licensed financial institutions in an effort to strengthen financial system stability. Despite significant improvements and impressive expansion, the financial sector still remains constrained by high costs of financing, important operating costs, a low share of credit to the private sector, limited bank branch infrastructure, and lack of competition due to high concentration in the banking sector.

160. Capital market activity is limited in Sierra Leone. A Stock Exchange is in existence but rudimentary in its operation with few companies enlisted, mostly banks. The fixed income market remains relatively shallow. The government remains the only active issuer, regularly issuing short-term treasury bills and some shorter-term bonds, and has recently decided to gradually introduce long-term treasury notes to lengthen the maturity profile of its debt instruments. As of April 2011, Sierra Leone received no sovereign rating by any of the three major credit rating agencies.

161. The investor base remains rather limited and is largely dominated of commercial banks, though the National Social security and Insurance Trust and a few discount houses and insurance companies also hold treasury bills. Retail investors can participate in the debt market through commercial banks but foreign investors are barred. Capital market regulation reforms are currently under way and the market is expected to open to foreign investors in the near future. Secondary market trading is limited to over-the-counter transactions through primary dealers and Repo/Reverse Repo operations by the Central Bank.

162. The insurance sector is regulated by the Sierra Leone Insurance Commission. At present, nine insurance companies are registered. Supervision of the sector is carried out by the Commissioner of Insurance within the Department of Finance.

163. The **Togolese** financial system is dominated by the banking sector, with total financial system assets amounting to 30 percent of GDP.[45] The banking system composes of 11

[45] http://www.mfw4a.org/country-focus/togo/togo-financial-sector-profile.html

commercial banks. The sector is highly concentrated, with the largest bank accounting for 22 percent of total bank assets, and the largest three accounting for a combined 61 percent. The government holds important stakes in 6 out of the 11 banks, representing 67 percent of total bank assets. The sector's foundations are rather weak; compliance with key prudential ratios is mixed, and several banks had negative equity. Despite these difficulties, domestic credit increased by 32.3 percent in 2007, reaching 21 percent of GDP at the time, and grew again by 22.2% in 2008, before decelerating to 8 percent growth in 2009. The Togolese authorities have recently adopted measures to tackle high non-performing loan (NPLs) ratios in the banking sector through the securitization of bad debt and restructuring the banking system. Three state owned banks were fully recapitalized by December 2008 with their NPLs, which represented 27 percent of total loans and approximately 7 percent of GDP, swapped for government issued securities. Authorities are now working in consultation with the World Bank to develop mechanisms to settle the NPLs they now hold.

164. The Togolese microfinance sector has recorded strong growth in recent years and plays a key role in providing financial services to the population. Outstanding microfinance loans represent 16.3 percent of total bank loans, while deposits account for 15.3 percent of total bank deposits. In light of the rapid growth of the sector, the Togolese authorities have recognized the need for strengthening the sector's supervisory framework: accordingly, the 2008-2012 National Microfinance Strategy highlights the need to ensure a sound and safe development of microfinance institutions. The supervision of microfinance institutions (MFIs) is carried out by the Ministry of Economy and Finance.