7

West African Economic and Monetary Union

Central Bankers Drive Basel Under IMF Pressure

Ousseni Illy and Seydou Ouedraogo

Introduction

The West African Economic and Monetary Union (WAEMU)[1] adopted Basel II and III standards simultaneously on 24 June 2016, and started implementing them from January 2018 with a transitional period of one and a half years. Considering the weak development of the financial sector in the Union and its poor connectedness to the international financial system, this reform was unexpected. How can we explain WAEMU's decision to align itself with international standards?

In this chapter, we explain the political economy of banking reform and the adoption of international banking standards—and Basel standards in particular—in WAEMU. Our findings show that a leading role was played by the supranational Central Bank of West African States (BCEAO), pressured by the IMF, while governments and domestically oriented banks did not show any support for Basel standards or public opposition to their implementation.

Internationally oriented and well connected to peer regulators, the BCEAO used its dominant position in banking regulation at the domestic level to champion the adoption of international standards, including Basel I, II, and III. Central bank governor Alassane Ouattara, a former Director of African department at the IMF, played a prominent role in the adoption of Basel I and is said to be the 'godfather' of the supranational regulation and supervision reform including the Banking Commission.[2] The multinational dimension of the BCEAO reinforces its power by insulating it from political pressure, giving it significant room for manoeuvre.

[1] WAEMU is a regional economic community encompassing Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo, sharing a single currency, the CFA Franc, issued by a common central bank, the Central Bank of West African States (known by its French acronym, BCEAO).

[2] Interview with central bankers, BCEAO, Dakar (March 2016).

Ousseni Illy and Seydou Ouedraogo, *West African Economic and Monetary Union: Central Bankers Drive Basel Under IMF Pressure* In: *The Political Economy of Bank Regulation in Developing Countries: Risk and Reputation.* Edited by: Emily Jones, Oxford University Press (2020).
DOI: 10.1093/oso/9780198841999.003.0007

At the same time, the BCEAO is under the influence of the IMF and has experienced enormous pressure to adopt Basel II and III standards, and the impact studies and drafting of the new regulations have been conducted under IMF technical assistance, through AFRITAC West. IMF Managing Director Christine Lagarde explicitly recommended the 'move to Basel II and III which would allow alignment to international standards' (Lagarde, 2015). This position towards WAEMU, which is in sharp contradiction with its recommendations to other low-income countries (including the case studies identified in this book), is intriguing—even to some BCEAO officials.

WAEMU is an example of regulator-driven convergence. The adoption of Basel standards is championed by a regulator with strong links to international policy communities, while governments and domestically oriented banks do not play an active role, complicating the implementation and enforcement of the new regulations.

The methodology of the study combined a review of literature and an analysis of various reports and documents from several stakeholders including the IMF, the BCEAO, and the Banking Commission. Furthermore, interviews were conducted in five countries[3] with officials and former officials of the BCEAO, the Banking Commission, national authorities, private bank executives, diplomats, and experts. In total, thirty-eight people were interviewed in thirty-two semi-structured interviews, conducted from January 2016 to December 2017.

This chapter describes the political economy context of WAEMU (Table 7.1), including the evolution of the financial sector. It then discusses the adoption, implementation, and enforcement of Basel standards in WAEMU, before examining the factors behind convergence on international banking standards in the Union. It ends with a brief conclusion.

Table 7.1 WAEMU: key indicators

WAEMU	
GDP per capita (current US$)	756
Bank assets (current US$)	3.25 bn
Bank assets (% of GDP)	29.915
Stock market capitalization (% of GDP)	39.34
Credit allocation to private sector (% of GDP)	24.05
Credit allocation to government (% of GDP, 2014)	5.62
Polity IV score (2017)	5

Note: All data is from 2016 unless otherwise indicated.

Source: FSI Database, IMF (2018); GDI database, World Bank (2017); Polity IV (2014)

[3] Benin, Burkina Faso, Côte d'Ivoire, Senegal, and Togo.

Political economy context

Economic and financial conditions

Seven of the eight WAEMU countries are classified as low income, while Côte d'Ivoire is lower-middle income. Their economies are dominated by a few export crops including cocoa, cotton, and coffee, as well as natural resources, gold, oil, uranium, phosphate, and bauxite. Their financial systems remain underdeveloped even compared to the average of the Sub-Saharan Africa region. A huge difference used to exist between WAEMU's and the Sub-Saharan African region's ratios of private sector credit to GDP, but WAEMU's performance has improved during the past decade and is now close to the continent's average (Figure 7.1).

Despite increasing financial development, lending to the economy remains an important challenge. Banks provide a third of their total loans (35 per cent in 2015) to the governments, mainly through governments' bonds. Huge sectorial asymmetries exist in credit allocation. In 2015, 32.2 per cent of total loans were provided to trade activities and 32 per cent to services. The industrial sector accounted for 17.4 per cent and only 3.6 per cent of loans were dedicated to the agricultural sector. The remainder of the loans were devoted to mining, construction, and other activities. In addition, 68.8 per cent of these loans were extended as short-term credit (BCEAO, 2016a).

As in most developing countries, banks dominate the financial sector in WAEMU. The regional stock market (Bourse Régionale des Valeurs Mobilières—BRVM), based in Abidjan, remains embryonic. The number of companies listed

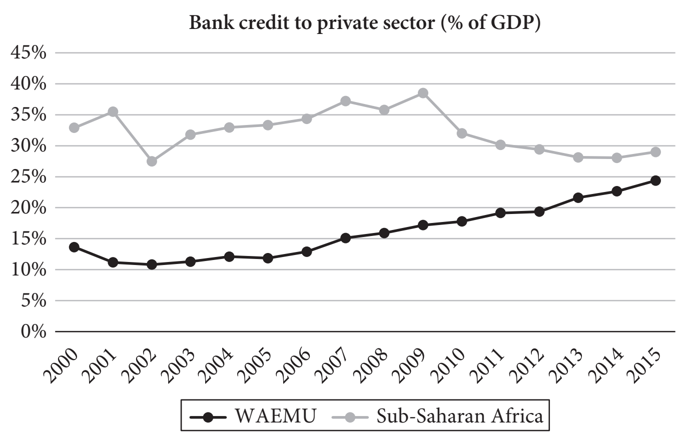

Figure 7.1 WAEMU: bank credit to private sector (% of GDP).

Source: World Bank (2017)

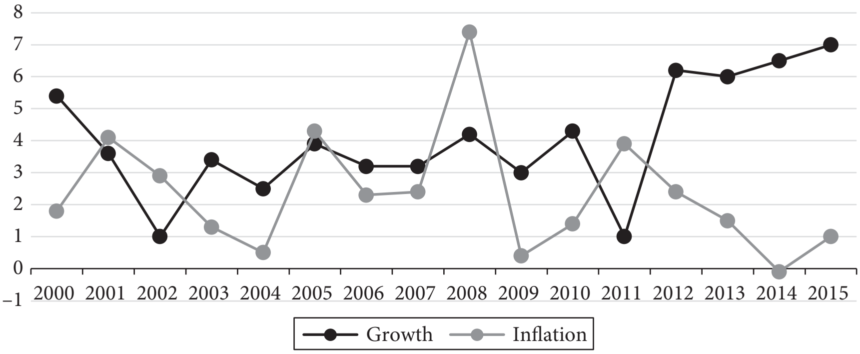

Figure 7.2 WAEMU: economic growth and inflation (%).
Source: BCEAO (2015b and 2012)

on the BRWM is about forty, the same as Accra's stock market. The microfinance sector accounts for 13.9 million clients (September 2014) compared to the banking sector which has only 8 million personal banking accounts. However, deposits collected by microfinance institutions amount to only 6.3 per cent of bank deposits and their total credit is about 7 per cent of bank loans (BCEAO, 2015a). Mobile banking is also growing rapidly (36 million accounts in 2016) (BCEAO, 2016b).

WAEMU's banking sector operates in a context of low inflation. Indeed, changes in consumer prices were close to zero in 2014 and 1 per cent in 2015. A difficult decade culminated in a political crisis in 2011 in Côte d'Ivoire, the Union's foremost economy, after which the region enjoyed high economic growth, reaching 7 per cent in 2015 (Figure 7.2).

Historical evolution of WAEMU's financial sector

Major changes have occurred in the financial sector in WAEMU during the past three decades. Like other countries in Sub-Saharan Africa, WAEMU countries were hit by a severe banking crisis towards the end of the 1980s that nearly destroyed the entire banking sector. It is estimated that one third of banks in the region were in difficulties in 1988 and a quarter of extended credit was unrecoverable (Powo Fosso, 2000). The crisis has had huge consequences for households, firms, and the States more broadly. For instance, the cost borne by States is estimated to be equivalent to 17 per cent of GDP in Benin and Senegal, and close to 25 per cent in Côte d'Ivoire (Caprio and Klingebiel, 1996).

With reforms put in place in the early 1990s, the banking sector has returned to profitability and been growing rapidly. However, non-performing loans (NPLs) still present a significant challenge (Figure 7.3).

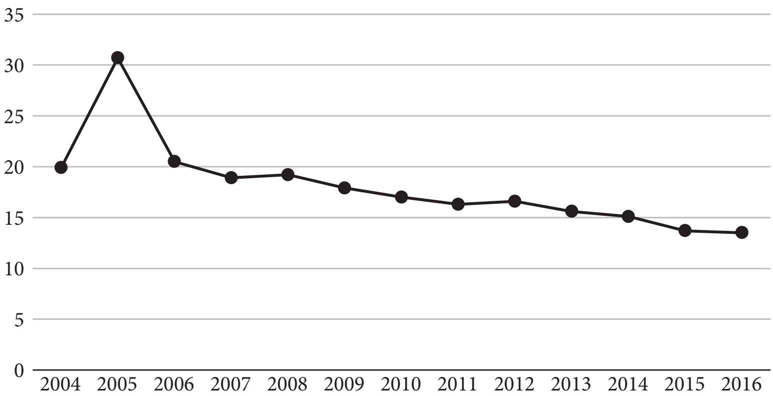

Figure 7.3 WAEMU: non-performing loans (NPLs) (% total loans).
Source: BCEAO (2016b)

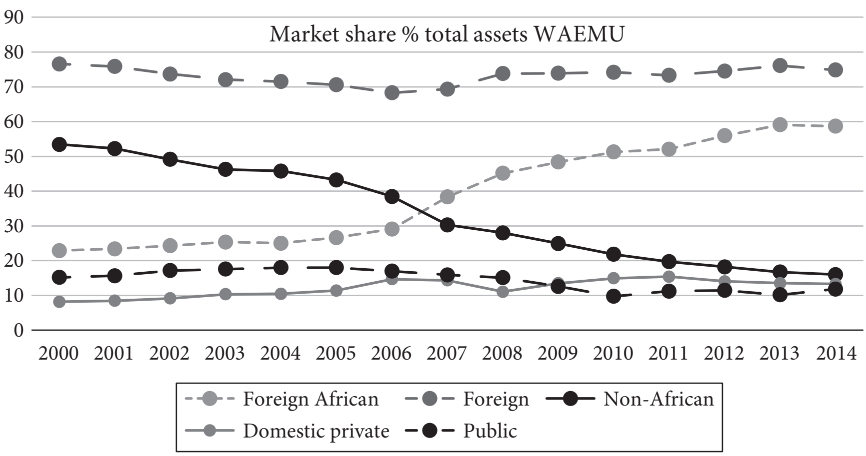

Figure 7.4 WAEMU: patterns of bank ownership.
Source: Ouédraogo (2017)

Bank ownership, bank concentration, and competition

After a period of decline, the number of banks has risen from fifty-four in 1996 to ninety-two in 2005 and 112 by 2015. New entrants are mainly African banks that have challenged the previous dominance of European banks. As in other regions of Africa, the rise of pan-African banks (PABs) is one of the most important developments in WAEMU's financial sector in the last decade. Foreign African banks took the lead in market share from non-African and European and American banks in 2006 and grew to having about 60 per cent of total assets in the region. Public and private domestic banks remain in the minority (Figure 7.4).

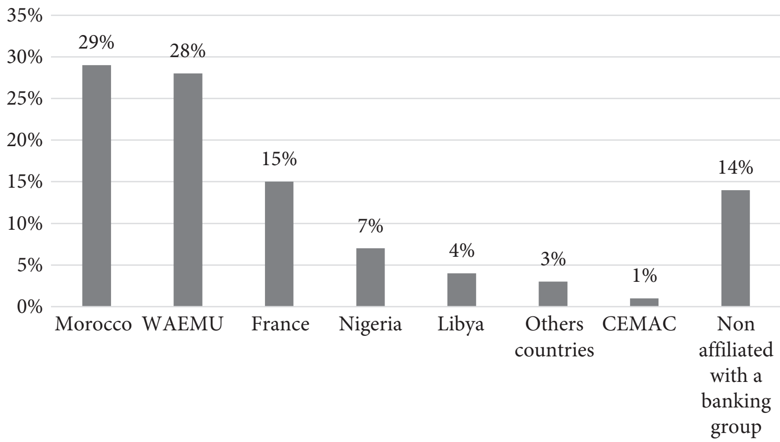

Figure 7.5 WAEMU: bank market share by bank origin.
Source: BCEAO (2014)

Moroccans lead the banking sector and control 29 per cent of total assets. Banks from WAEMU control 28 per cent, and French banks have 15 per cent of the market, followed by Nigerian banks with 7 per cent.

The Union's banking sectors are domestically oriented, and its banks do not access international markets. The various players carry different interests and strategies, but their business models remain largely domestically oriented (Figure 7.5).

Banks operate in markets with limited competition. While the number of players has risen steadily and banking concentration has fallen sharply over the last fifteen years (Figure 7.6), it remains high relative to several countries in Sub-Saharan Africa, including Ghana, for example.

In relation to market concentration, bank profitability is very important (Ouédraogo, 2013). Despite a high level of NPLs (about 14.2 per cent of total loans in 2015), the banking sector provided a return on equity of about 14 per cent in 2015.

Banking regulatory and supervision set-up

The regulatory and supervision set-up of WAEMU's banking sector is quite complex, with at least four types of bodies involved. Among these are the Council of Ministers, the BCEAO, the Banking Commission, and the national authorities (ministers of finance). The first two are normally in charge of the initiation and adoption of banking regulations. However, as we will see, they are also involved to some extent in the supervision process. The Banking Commission and the National authorities are entrusted with supervision more broadly.

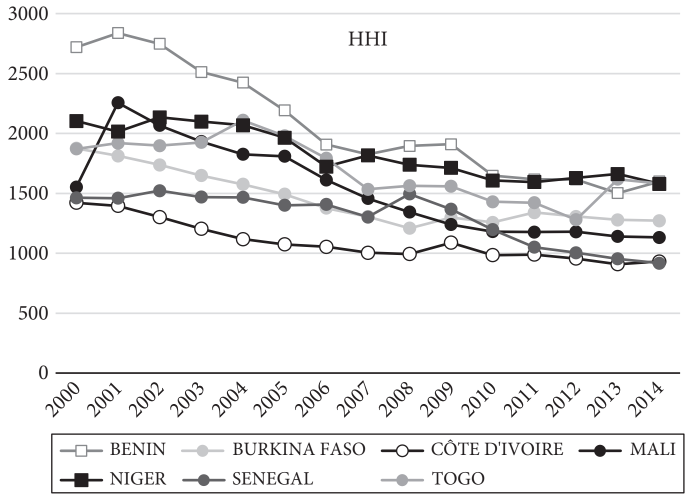

Figure 7.6 WAEMU: bank concentration Herfindahl-Hirschman Index (HHI).
Source: Calculations based on data from BCEAO (2014b)

The Council of Ministers and the BCEAO

The Council of Ministers is principally responsible for monetary policy and banking regulation. It is composed of ministers of finance of member states. It is worth mentioning that France, which has a seat on the board of the BCEAO and the Banking Commission, is not represented on the Council of Ministers. The Council is normally assisted in its mission by the BCEAO.[4] However, according to the Treaty establishing the WAMU, the BCEAO may also initiate regulations by itself. Nonetheless, the adoption of those regulations lies with the Council. In practice, most regulations are initiated and prepared by the BCEAO, in collaboration with members states (ministers of finance), and transmitted to the Council for adoption.

The Council of Ministers works under the authority of the Conference of Heads of States and Government, which is the highest governing body of WAEMU. The Conference does not intervene directly in the regulation process.

The Banking Commission and national authorities

The Banking Commission was created in 1990, in response to the failure of the national authorities that were then in charge of banking supervision in member states. It comprises nineteen members (commissioners): representatives of states (eight), a representative of France as the guarantor of the CFA Franc, independent

[4] See Article 17 of the Treaty establishing the West African Monetary Union (WAMU).

commissioners (nine), and the governor of the BCEAO, who presides over the institution. The Secretariat of the Commission is in charge of the technical work, notably supervision. It is assured by the BCEAO, which provides all of its staff.

The Commission is mandated to supervise all banks and related credit institutions operating in WAEMU's member states. This includes issuing and withdrawing banking licences; supervising credit institutions; placing administrative measures and sanctions against credit institutions and their managers for wrongful acts; and appointing provisional administrators or liquidators for troubled banks.

In some of these areas, the Commission shares powers with the finance ministers. This is the case in banking licence. For issuing banking licence, the application of the candidate is instructed by the Commission but the final decision lies with the finance minister of the member state concerned. However, the minister cannot issue a licence where the Commission has given a negative opinion. The same procedure is observed on licence withdrawal: the decision is taken by the Commission but its implementation belongs to the finance minister.

Basel adoption, implementation, and enforcement

Basel I

International banking standards were introduced in WAEMU for the first time in 1991, following the financial crisis of the 1980s.

This occurred in two phases: in 1991, the 'core capital' requirement of Basel I (Tier 1 capital) was adopted. Later, in 1999, the capital adequacy ratio was upgraded to 8 per cent, as recommended by the Basel Committee. Although other reforms of the regulatory framework were introduced later,[5] the minimum capital requirement to address credit risk remained the same.

Basel II and III

Initial moves towards Basel II adoption date back to 2004. However, the process never resulted in concrete reforms until the agreement on Basel III was reached by the Basel Committee in 2010. Therefore, the BCEAO decided to adopt Basel II and III concurrently.

[5] In 2007, the banking regulation was amended to increase minimum share capital from 1 to 5 billion CFA Francs. Another amendment in 2015 raised the minimum share capital to 10 billion CFA Francs.

The process started in 2013, with technical assistance coming from the IMF (BCEAO, 2014a). Qualitative and quantitative impact studies were conducted in 2014 and 2015.[6] The process was completed and on 24 June 2016 the Council of Ministers finally adopted Decision n°013 establishing the new prudential standards of WAEMU. A transitional period was set up for banks to adapt to the new standards. Consequently, the regulations entered into effect from 1 January 2018, and full implementation of some elements is extended until 2022.

The new regulations are largely inspired by Basel II and III standards. For instance, the definition of regulatory capital is taken exactly from Basel III.[7] Furthermore, contrary to the previous regime, where capital adequacy requirements covered only credit risk, the new legislation also includes operational and market risks, and a standardized approach is retained for all risks (Basel II).

The minimum total regulatory capital adequacy ratio has been raised to 9 per cent[8] of risk-weighted assets, which is higher than Basel III (8 per cent). Moreover, common equity tier 1 capital must be at least 5 per cent of risk-weighted assets, while the Basel III threshold is 4.5 per cent. Tier 1 capital must be at least 6 per cent, as recommended by Basel III. Unlike most low-income jurisdictions, WAEMU has also adopted two novel liquidity ratios from Basel III, namely the Liquidity Coverage Ratio and the Net Stable Funding Ratio (Table 7.2).

Basel Core Principles (BCPs)

Neither the BCEAO nor the Banking Commission has ever undertaken an assessment study of its regulatory and supervisory framework with the BCPs. A World Bank and IMF Financial Sector Assessment Programme (FSAP) was conducted on WAEMU in 2008. However, the report was never published on the websites of these institutions, and our efforts to obtain a copy have failed. Therefore, it is difficult to ascertain whether WAEMU banking framework complies with the BCPs.

Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) and International Financial Reporting Standards (IFRS)

Actions on AML/CFT started in 2003 in WAEMU when the Council of Ministers adopted the Uniform Act on money laundering on 20 March. In 2008, another uniform act was adopted on financing terrorism. These legislations were criticized for not taking sufficient account of international standards (IMF, 2011). They were

[6] Interview with central bank officials, BCEAO, Dakar (March 2017).
[7] See Decision n°013, Title II, Chapter 1.
[8] This ratio is currently set at 8 per cent.

Table 7.2 WAEMU: adoption of Basel standards

Basel component	Adoption	Implementation
Basel I	Prudential regime 1990 and 1991	1991
Basel II	Dispositif Prudentiel applicable aux banques et établissements financiers de l'Union monétaire ouest-africaine à compter du 1er janvier 2000—*Credit risk, Standardized Approach (SA)* Décision n°013/24/06/2016/CM/UMOA portant Dispositif Prudentiel applicable aux établissements de crédit et aux compagnies financières de l'Union Monétaire Ouest Africaine—*Market and operational risks, SA*	Credit risk, SA—1 January 2000 Market and operational risks, SA—January 2018
Basel III	Décision n°013/24/06/2016/CM/UMOA portant Dispositif Prudentiel applicable aux établissements de crédit et aux compagnies financières de l'Union Monétaire Ouest Africaine: - *Definition of capital* - *Capital adequacy requirements* - *Capital conservation buffer* - *Single large exposure limit* - *Leverage ratio* - *Liquidity coverage ratio* - *Net stable funding ratio*	In force since 1 January 2018

Source: BCEAO (2016c)

therefore revised in 2015 in a new merged Uniform Act on 'Combating money laundering and financing of terrorism in WAEMU', which has been transposed into domestic laws in all member countries.[9] The new legislation is in line with the Financial Action Task Force's (FATF's) recommendations on AML/CFT.

In addition, a new banking chart of accounts was passed by the BCEAO in 2016 aimed at convergence with global financial reporting standards, including IFRS.[10]

Implementation issues

Implementation and compliance with regulations, the prudential regime in particular, have always been a concern in WAEMU. Almost all IMF staff reports on the region since 2011, including the latest one (2017), have raised the issue. According to the 2017 report, 'the conditions in the banking sector remain challenging' and

[9] Contrary to the prudential regime, which is directly applicable, uniform acts must be incorporated into domestic law before being enforceable.

[10] Interview with BCEAO officials (Dakar, March 2017).

'the current rules—despite being less strict than the newly introduced ones—are not effectively enforced' (IMF, 2017, p. 17).

This non-compliance may be explained by several factors. First, the Banking Commission has a notable lack of capacity. As of 2015, the Secretariat of the Commission was composed of 120 staff members, of which less than half were dedicated to supervision activities (BCEAO, 2015c). This staff had to supervise more than one hundred banks in eight countries. The second factor is 'regulatory forbearance', mainly for economic and political reasons. Indeed, the Banking Commission sometimes refrains from taking prudential action when state-owned banks make politically sensitive loan decisions.

The political economy of Basel adoption in WAEMU

The analytical framework in this book helps us grasp the role and motivations of each actor in setting banking regulation in WAEMU and their responses to international standards. In this context, the essential actors are the BCEAO, the IMF, banks, governments, and politicians. The BCEAO is the dominant player at the domestic level and is internationally oriented. Under the influence of the IMF, it played a decisive role particularly in the adoption of Basel I in the early 1990s and the recent adoption of Basel II and III. The other actors do not show preferences favourable to the recent Basel norms, or an active opposition. The banks, without forming a homogeneous group with respect to their preferences for regulation, have various reservations but have not coordinated resistance to the adoption of Basel II and III. Governments and political parties seem to be the least concerned and essentially passive.

The BCEAO's international orientation and peer regulator networks

The BCEAO is internationally oriented, a position that can be identified at several levels, especially in the training and appointments of the Bank's executives and leaders, as well as the international network of regulators in which the BCEAO participates.

While a large part of its staff is trained in its own centre at the Centre Ouest Africain de Formation et d'Etudes Bancaires (COFEB), French academics and experts make up most of the body of trainers, and many of the COFEB speakers from the BCEAO have been trained in IMF training of trainers' courses, and relay the direct intervention of IMF experts.[11] French research and training centres are

[11] Interview with central bank official, BCEAO, Ouagadougou (December 2017).

part of the COFEB's Scientific Council in charge of 'assisting the Governor of the BCEAO in defining the orientations and modalities of the training policy' and 'deliberating on the organization and programs training sessions' (BCEAO, 2017, p. 7).[12]

Governor Alassane Ouattara (1988–90), a former Director of the Africa Department of the IMF (current President of Côte d'Ivoire), represents this international orientation of the BCEAO well. He has played a leading role, as shown below, in the reform of regulation and the institutional framework of banking supervision at the end of the 1980s. His successors have all spent the essential part of their careers at the BCEAO and have maintained this international orientation.

The BCEAO invests heavily in its large network of regulators around the world. Supervisory colleges of cross-border banks that operate in WAEMU including Nigerian, Moroccan, and even the Union's own banks (notably Ecobank and Orabank) are the most important peer regulators network to which the BCEAO is connected. It has developed special relations with the Moroccan banking authorities. Indeed, in addition to sharing the same working language, Moroccan banks have been the leaders in WAEMU for a few years now. The governors of the two Central Banks performed reciprocal working missions, and Bank Al-Maghrib is a technical partner assisting the BCEAO in the adoption and implementation of Basel II and III standards. The Moroccan Central Bank also participated in the exchange seminar on the draft texts of both sets of standards.

The BCEAO and the Banking Commission are also stakeholders in several other regional and international supervisory networks. The WAEMU Banking Commission participates in three groups of banking supervisors: the Group of Francophone Banking Supervisors (GSBF), the Community of African Banking Supervisors (CABS), and the Supervisory Committee for West and Central African Banks (CSBAOC) (BCEAO, 2016b). Launched in 2004, the GSBF aims to 'develop at a high level the cooperation between its members so that the exchange of experience and information promotes the spread of best practices and the convergence of prudential approaches to common problems'. The international regulatory reforms related to Basel II and III are the main topics of the group's work, which aims to facilitate their implementation. The CABS was established more recently, in 2013, with the objective, among others, to 'Capitalize on the experience of African Central Banks that have implemented Basel II' (COBAC, 2015). The CSBAOC was created in 1994 and brings together more than a dozen African countries, and organizes several meetings and training seminars for the benefit of its members. Nigeria is the member country that has gone furthest in adopting recent Basel standards.

[12] The Centre d'études et de recherches sur le développement international (CERDI, France) and the Institut Bancaire et Financier International (IBFI) of the Banque de France are members of the COFEB Scientific Council. They are also historic and closed partners of BCEAO.

In addition, the BCEAO was a member of the Basel Consultative Group (BCG) and was its only direct representative of an LIC. Nearly all other members are from upper-middle-income class or higher, and none of them African. WAEMU was also a member of the Core Principles Liaison Group (CPLG), organized in 1998 and 2006 by the Basel Committee as a forum for the exchange of experiences to promote the implementation of the fundamental principles for effective banking supervision.

The BCEAO: the dominant player in banking regulation at the domestic level

The BCEAO is the most influential player at the domestic level in terms of banking regulation. Four key factors give it this position, discussed below.

Firstly, beyond the formal independence of the BCEAO, its sub-regional nature protects its ability to issue regulation from the pressures and games of political interest. Moreover, the banking sector, particularly regulation, is almost absent from the political debate in WAEMU countries. Politicians and governments have little control over the sub-regional level.

Secondly, in practice, the effective division of labour of banking regulation assigns the BCEAO a leading role. As noted before, the Bank initiates legislation, prepares the draft in collaboration with member states, and submits it to the Council of Ministers for adoption. It has significant influence on the Council because often it is composed mainly of technocrats that previously worked in international financial and economic institutions including the IMF, the UNDP, and in many cases the BCEAO itself. Indeed, several finance ministers are seconded BCEAO executives who return at the end of their political mandate.

Thirdly, the BCEAO has significant technical, financial, infrastructural, and material resources. Interviews with national authorities explicitly reference this technical capacity of the BCEAO. A senior national authority figure said, 'our governments show little interest in the reforms related to Basel II and III. They seem to delegate everything to the BCEAO by technical insufficiency. Thus, even the consequences of these standards on economies are seldom discussed'.[13]

This technical precedence and leadership in the reform process is all the more asserted as WAEMU member governments often have a weak vision for banking. A closer look at seven development plans[14] of the WAEMU member countries reveals the lack of attention given to the issue, most notably in a failure to address banking supervision and particularly regulation. Indeed, no development plan explicitly mentions the issue of banking regulation at all. The interviews confirm

[13] Interview with a WAEMU country minister of Trade and Industries (March 2017).
[14] All WAEMU countries excluding Guinea Bissau.

limited knowledge on the part of the member states on international banking standards and related issues.[15]

Finally, the BCEAO and the Banking Commission exhibit significant authority over banks. The interviews with bankers repeatedly stressed an asymmetric power relationship. Several officials testified: 'they (the BCEAO) invited us to tell us what they decided, it was not a consultation';[16] 'they do what they want';[17] 'They will decide what they want but we know there will be problems in the application that they will have to consider'.[18]

The IMF's influence in WAEMU countries

The IMF has significant sway over WAEMU member countries. Since the financial crises of the 1980s, WAEMU members have signed onto programmes with the IMF and the World Bank. From traditional adjustment programmes (SAPs) to the current extended credit facility (ECF) programmes, their cooperation with the IMF has been continuous. Several ECF programmes have succeeded each other in each country. The conditionalities that accompany them do not mention the aspects of banking regulation, but these remain at the core of relations between the IMF and the BCEAO. In addition, as mentioned previously, the IMF uses its technical assistance to the BCEAO as a channel of influence and pressures the adoption of international standards.

Regulator-driven adoption of Basel I: the leadership of Governor Ouattara of the IMF

Going back to Basel I adoption and the creation of the Banking Commission in the 1990s, one may recall the leading role that the then governor and former IMF staff member, Alassane Ouattara, played in enacting reforms. He championed the adoption of Basel I and the tightening of supervision by creating the Banking Commission. The governor of the BCEAO, Tiemoko Koné, recalled his role as the 'main architect' of the reforms and 'designer of the Banking Commission of WAEMU', for which he was dubbed the 'godfather' of the Commission (Koné, 2015).[19]

Indeed, Mr Ouattara came to lead the Bank at a critical time when the region was experiencing one of the worst banking crises in its history. The crisis served as a permissive context—its costs paved the way to taking strong measures, notably

[15] Interviews with ministers in WAEMU (March and May 2017).
[16] Interview with pan-African banker at Dakar (March 2017).
[17] Interview with Ivorian Banker, Abidjan (March 2017).
[18] Interview with African banker at Ouagadougou (April 2017).
[19] Interviews with BCEAO officials, Dakar (March 2017).

the reinforcement of the BCEAO's prerogatives in banking regulation and the replacement of National Commissions with a sub-regional banking commission. Supranational centralization constituted a structural change that repositioned the BCEAO in its relationship with the states in relation to banking.

Adopting Basel II and III: the BCEAO under the pressure of the IMF

The BCEAO's crucial role in adopting Basel II and III must be highlighted. These reforms were top-down, as there was no demand for them on the ground and banks are still struggling to abide by existing rules.

The BCEAO officials' interviews have displayed their appropriation of international standards and mention several motivations for the transition to Basel II and III.[20] Indeed, for them, the emergence of cross-border banks and the influence of international banks leave the WAEMU member states vulnerable. They also mention the need to harmonize regulations in order to interact with foreign banks that have implemented and are subjected to the new Basel standards. Thus, the reform will have 'great benefits including the contribution that Basel II and III will make to the soundness of financial institutions'.[21]

The international orientation of the BCEAO and its supranational dimension are crucial in understanding the adoption of Basel II and III. They explain both the receptivity and permissiveness of the BCEAO to IMF pressures to adopt both sets of standards and its room for manoeuvre vis-à-vis domestic actors.

Since starting banking reforms, the BCEAO has relied on the support of the IMF. The IMF has not only pushed hard for the transposition of international standards, but has also offered the technical assistance required for preliminary studies and capacity building—both for training actors and even for writing the law. Indeed, the officials in charge of the project at the BCEAO appear to have benefited from the support of the IMF throughout the process of the reform. The West Africa Regional Technical Assistance Center, AFRITAC West, has contributed throughout the project.[22]

Qualitative and quantitative studies recommended the transition to Basel II and III. These studies are mentioned in AFRITAC West's 2014/15 activity report, which refers to missions to the BCEAO by a team reinforced with an IMF-hired expert on the transposition of Basel II and III to WAEMU (Afritac Ouest, 2015). The report specifies the following results: 'a) Drafting of a study on the readiness of banks to transition to Basel II and Basel III; b) completion of a capital impact assessment as part of the transposition of Basel III; c) formalization of guidelines for the implementation of supervision on a consolidated basis and the subjection

[20] Interviews with BCEAO officials, Dakar (March 2017).
[21] Interviews with BCEAO officials, Dakar (March 2017).
[22] Interview with BCEAO officials, Dakar (March 2017).

of banking groups controlled by unregulated holding companies; d) preparation and training of banks for the impact assessment on capital requirements (Pillar 1 of Basel II)' (Afritac Ouest, 2015, p. 29). However, their results are not published. The draft texts developed were sent to the IMF and the World Bank[23] before being adopted by the Council of Ministers in June 2016.

Prior to the completion of the impact study, during the conference she hosted at the BCEAO headquarters in January 2015 on the theme of financial inclusion, the Managing Director of the IMF, Christine Lagarde, recommended the adoption of a regulatory framework 'based on adequate capital requirements for banks, sound prudential standards and strong enforcement of these standards as they are fundamental pillars of the stability of the financial sector. There is room to consolidate all these pillars in the region and the ongoing efforts to move to Basel II/Basel III are extremely encouraging . . . this passage to Basel II, Basel III which will also bring it closer to international standards' (Lagarde, 2015).

This explicitness of the position held by the IMF is very surprising because it is contrary to its position on other low-income countries whose cases are examined in this book, including the better financially developed Ghana. Indeed, the adoption of Basel II and III standards is not overtly recommended in all low-income countries.

The evidence of IMF influence and pressure is further supported by private banks and some BCEAO officials. Private bank executives cited, among others, the sustained presence of AFRITAC/IMF staff and experts during seminars and training they received in preparation for Basel II and III.[24] On the part of the BCEAO, even though the term 'pressure' is not openly mentioned, some of the executives we met recognize the 'central role' of the IMF in the process.[25] Some stated clearly that: 'It is the IMF that is pushing'.[26] A high-ranking national authority indicates that 'the Central Bank relays the position of the IMF in order to be well graded by it'.[27]

IMF pressure is not limited to the adoption of Basel II and III; it has also aimed at a broader set of international standards. Recently, the Executive Directors of the IMF 'encouraged' the authorities of WAEMU 'to speed up the reform agenda, *particularly the implementation of Basel II and Basel III*, to strengthen risk-based supervision, to align prudential limits with international standards and best practices, to enforce existing prudential rules to reduce NPLs, and to avoid regulatory forbearance' (IMF, 2016, p. 2, emphasis added).

23 Interviews with BCEAO officials, Dakar (March 2017).
24 Interview with African bankers, Ouagadougou (April 2017).
25 Interview with BCEAO officials, Dakar (March 2017).
26 Interview with BCEAO officials, Dakar, March 2017 and Abidjan (January 2016).
27 Interview in Abidjan (March 2017).

The BCEAO has been receptive to these recommendations by the IMF, and always committed itself to their implementation. It is striking that the law adopted in June 2016 retains all these recommendations verbatim—from the risk concentration threshold and the classification of loans as non-performing to capital requirements. In addition, the transition to IFRS standards is expected to be in the new accounting plan currently in the works. Through pressure from the IMF and its peer networks, the BCEAO takes the local lead and then tries to 'sell' the reform to the other stakeholders, namely governments and private banks.

The BCEAO's network of regulators constitutes frameworks for learning and disseminating information about international standards to the banking authorities of WAEMU. As the Banking Commission itself points out in its 2014 report, 'discussions on international reforms, such as Basel II, Basel III or the new accounting framework, are also at the heart of the work [of the Bank Supervisory Groups] and aim to facilitate their implementation' (BCEAO, 2014a, p. 66).

Interviews with officials of the BCEAO and current and former officials of the Banking Commission support the hypothesis of peer emulation in the adoption of international standards. For the BCEAO, these groups are primarily places of information and learning through shared experience. In addition, cooperation encourages the adoption of seemingly more advanced standards that have been implemented by the supervisors of foreign banking groups. From this point of view, the interviews confirm that the relationship with Morocco was particularly favourable to the adoption of the new standards.[28] BCEAO executives emphasized the delay with which certain jurisdictions in WAEMU participated in the various colleges of supervisors, thus underlining one of the motivations for the ongoing reforms.[29] However, the interviewees also clearly indicated that the influence of the IMF is the most decisive.[30]

The position of the WAEMU banks

The adoption of Basel II and III in WAEMU has not been met with enthusiasm amongst banks. Yet they also did not show outright defiance, probably because of the BCEAO's position of power but also because of the nuances in their positions. Interviewees gave several indications on shared positions regarding 'the busy agenda' and 'the tight scheduling' of the reform, but highlighted the divergences of opinion on the opportunities of the reform, costs of transposition, and inherent competitive benefits.

[28] Interviews with BCEAO officials, Dakar (March 2017).
[29] Interviews with BCEAO officials, Dakar (March 2017).
[30] Interviews with BCEAO officials, Dakar (March 2017).

Strikingly, all bank executives interviewed, be they from public, domestic, pan-African banks, or international banks, agreed on the fact that the reform agenda is very demanding. Indeed, the bankers consider that the combined adoption of Basel II and Basel III, with the addition of the new banking accounting plan, is carried out on a 'very tight schedule' and demands from them 'a lot of resources'.[31] These reforms require human resources that are very limited in practice, even in international banking groups—especially since in many cases, 'it's the same teams that are in charge of these projects'.[32] The reform 'requires a tedious standardization of all human resources of banks', including commercial teams in international banks. International banks are therefore providing timid support for the reform and it is difficult to see any genuine initiative on their part in favour of adopting the new international standards.[33]

The 'very tight timing of the reform'[34] was one of the main concerns expressed by the banking sector during the consultation process prior to the adoption of Basel II and III. FABEF's scientific committee strongly advocated for and obtained an extension of the implementation deadline, initially set for January 2017 in the draft texts and finally decided on for 1 January 2018.

If a consensus is established on the timing of the reform, the opportunity the reforms present is assessed differently by different banks. International banks whose parent companies are governed by Basel II and/or III generally consider the reforms as favourable to the sector as a whole, unlike domestic banks. For example, an official from a Moroccan bank said, 'It's the agenda that is more troublesome than the objectives'.[35] This statement was confirmed by that of another executive of a French bank.[36] Banks with no affiliation to any banking group, as well as those with no experience of Basel II and III, are strongly against the reforms: 'if this reform were in place, our bank would have never been able to exist and have the journey that it had'; the reform 'will prevent local initiatives like ours to take place in the banking sector'.[37]

In addition, the cost of transposing standards to the local context is also not estimated similarly by the different categories of banks. Large banking groups affiliated with parent companies that are already regulated on the basis of these new standards report benefiting from their learning and previous experiences. They pool the expenses of the different institutions in teams coordinated at the regional level—a fact that proves to be the case for the French, Moroccan, and Nigerian banking groups. Banking groups from WAEMU do the same, although

[31] Interviews with bankers, Lomé (December 2016); Cotonou (December 2016); Dakar (March 2017); Abidjan (April 2017); Ouagadougou (April 2017).
[32] Interviews with bankers, Dakar (March 2017); Ouagadougou (April 2017).
[33] Interviews with bankers, Lomé (December 2016); Dakar (March 2017); Ouagadougou (April 2017).
[34] Interviews with bankers, Dakar (March 2017); Ouagadougou (April 2017).
[35] Interview with executive of Moroccan bank in Ouagadougou (April 2017).
[36] Interview with executive of French bank Abidjan (April 2017).
[37] Interview with executive of WAEMU bank, Ouagadougou (April 2017).

they do not all have Basel II/III experience. They face much higher costs than the large banking groups, which are also their main competitors.[38] Unaffiliated institutions with no relevant experience pay the highest costs to meet the new standards. Many of them have had difficulty meeting the standards already in place.

However, real difficulties are apprehended by all the banks. Foreign organizations highlight the challenges that the entire industry is confronted with in implementing the new regulatory standards. The requirement to upgrade computer systems is particularly difficult. Indeed, one main operator manages most of the banks' ICT system in the region; the ability of this supplier to satisfy the demand of all firms is questioned.[39] The constraints are also relative to the banking environment, including the dysfunctions of judicial services in WAEMU member countries, the ecosystem of banks that is marked by a highly developed informal sector, and very pressing information problems, among other factors.

Certainly, the international banks recognize that the reform could be in their favour, and that it would eventually put all banks on an equal footing. French banks in particular have often explained their decline and the emergence of African banks by citing the stronger regulatory requirements imposed on them by their parent company in Basel III.[40] Banks placed under the control of Moroccan groups indicate that their customers complain about the cumbersome nature of their new credit procedures because of the reorganizations introduced by parent companies.[41] Yet these new procedures now give them a lead over competitors in implementing Basel II/III.

In sum, international banks have comparative advantages in implementing the new regulatory standards, and could profit from their domestic competitors; however, they do not seem to have pushed for the reforms, of which they emphasize the tight timing, the important costs induced, and the constraints posed by the context of application. If local banks accuse them of having contributed to the reform process, they still concede the decisive role of the IMF and France, which would serve the European banks.[42]

A role for France?

France has a singular position in the monetary and banking institutions of the WAEMU member countries. A former colonizing power, it has representatives on

[38] Interviews with executive of WAEMU bankers in Lomé (December 2016); Dakar (March 2017); Abidjan (April 2017); Ouagadougou (April 2017).

[39] Interviews with executives of French bank, Ouagadougou (April 2017); Abidjan (April 2017).

[40] Interviews with executive of French bank, Ouagadougou (April 2017).

[41] Interviews with executive of Moroccan bank, Ouagadougou (April 2017).

[42] Interviews with executives of WAEMU banks, Lomé (December 2016); Benin (December 2016); Dakar (March 2017); Abidjan (April 2017); Ouagadougou (April 2017).

the BCEAO board of directors and on the Banking Commission. France's influence on monetary and banking issues has often fuelled controversy.

The premise of France's influence on the Basel II/III adoption process is therefore based on its colonial legacy and on the decline of French banks in the region. Indeed, they have lost their market leadership and explain their decline, in part, based on the advantage their competitors derive from the margins of manoeuvre afforded to them by the less stringent regulatory constraints they are subject to.[43]

In our research, France's role does not come to the fore—indeed, most discussions have converged on the prominent role of the IMF. While the executives of the central bank and the Banking Commission recognize the 'important contribution of the IMF', they do not recognize any particular action in France.

However, local banks do assign a role to France. One banker said, 'it is France who wants the reform for the benefit of its banks'.[44] Another added: 'this reform serves the interests of French banks first and foremost'.[45] These points of view converge on views transmitted by French banks to French diplomatic circles in Africa.[46] Indeed, according to interviews, these diplomatic circles suggest French banks think that 'they do not operate on the same footing as African banks' because of the stronger regulatory requirements to which their parent companies must adhere.

In addition, several bank officials consider there to be an alliance between the IMF and France in favour of banking reform,[47] but this is unsupported by evidence. As mentioned above, however, the IMF's recommendations for the adoption of Basel II and III in WAEMU are remarkable. In addition, apart from the presence of France in WAEMU's monetary and banking bodies, it should be noted that it is one of the main donors of AFRITAC West—indeed the second biggest donor after the EU in 2014. It is also interesting that the person responsible for supervision and bank restructuring at AFRITAC West has always been a former official of the Banque de France or the French Treasury.

All in all, further investigation is needed to inform a possible role France holds in adopting Basel II and III standards in the WAEMU member states.

Conclusion

WAEMU is an example of IFI-driven convergence on international standards, with an internationally connected regulator advocating implementation under pressure from international financial institutions. Based on interviews and

[43] Interviews with French diplomats and executive of French bank, Ouagadougou (April 2017).
[44] Interviews with executive of WAEMU bank, Ouagadougou (April 2017).
[45] Interviews with executive of WAEMU bank, Dakar (March 2017).
[46] Interviews with French diplomats and executive of French bank, Ouagadougou (April 2017).
[47] Interviews with executive of WAEMU bank, Ouagadougou (April 2017).

scrutiny of formal documents, the evidence shows the decisive role of the BCEAO in the adoption of Basel II and III. The supranational dimension that gives the BCEAO more leeway vis-à-vis local players, and its extensive links to the international policy community, reflected in participation in peer regulator networks and in the training of its executives, explains the regulator's preference for Basel standards.

The IMF also played a decisive role in WAEMU. While the IMF and World Bank have been present in other cases and driven financial sector reforms, the WAEMU case stands out in the extent to which the IMF exerted significant pressure for WAEMU to implement Basel II and III, in contrast to its recommendations in other low-income countries and regions. In addition, the BCEAO benefited from IMF technical assistance in conducting reforms and drafting new banking standards. Other actors, both governments and banks, showed no appetite for international banking standards. The role of the IMF, and possible links with France, deserves greater exploration.

In line with the analytical framework, the reforms undertaken by the BCEAO, without the support of the banks, may lead to significant difficulties in implementation. A good proportion of banks, especially those not belonging to a banking group, already had difficulties in complying with the less stringent regulations set by Basel I. The WAEMU case, like Rwanda, is an example of regulations moving in ways that are out of step with the realities of a shallow and underdeveloped financial sector.

References

Afritac Ouest, 2015. *Activity report 2014/2015*. Afritac Ouest, Dar es Salaam, Tanzania.

BCEAO, 2012. *Statistics yearbook, 2012*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

BCEAO, 2014a. *Annual report*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

BCEAO, 2014b. *Bilans et comptes de résultats des établissements de crédit de l'UMOA, 2002–2014*.

BCEAO, 2015a. *Situation du secteur de la microfinance dans l'UMOA au 30 septembre 2015, note trimestrielle*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

BCEAO, 2015b. *Statistics yearbook, 2015*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

BCEAO, 2015c. *Rapport annuels de la Commission bancaire*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

BCEAO, 2016a. *Annual yearbook, 2005–2016*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

BCEAO, 2016b. *Rapport annuels de la Commission bancaire*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

BCEAO, 2016c. *Textes transposant les dispositions de Bâle II et Bâle III dans L'UMOA*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

BCEAO, 2017. *COFEB diploma official brochure*. Banque Centrale des États de l'Afrique de l'Ouest, Dakar, Senegal.

Caprio, G.J., Klingebiel, D., 1996. *Bank Insolvencies: Cross-Country Experience* (No. Policy Research Working Paper 1620). World Bank, Washington, DC.

COBAC, 2015. *African banking supervisors group* [WWW Document]. URL http://www.sgcobac.org/jcms/baz_6001/en/groupe-des-superviseurs-bancaires-africains (accessed 21.1.19).

IMF, 2011. *Staff Report on WAEMU*. International Monetary Fund, Washington, DC.

IMF, 2016. *Staff Report on WAEMU*. International Monetary Fund, Washington, DC.

IMF, 2017. *Staff Report on WAEMU*. International Monetary Fund, Washington, DC.

IMF, 2018. *Financial Soundness Indicators Database*. International Monetary Fund, Washington, DC.

Koné, T., 2015. *Speech on the occasion of the 25th anniversary of the Banking Commission 10th of December 2015*. Banque Centrale des États de l'Afrique de l'Ouest, Abidjan.

Lagarde, C., 2015. *Christine Lagarde sur la thème: 'L'intégration financière au service d'une croissance inclusive'*. BCEAO.

Ouédraogo, S., 2013. *Concentration bancaire, profitabilité et développement financier bancaires dans l'UEMOA* (No. Revue d'économique et monétaire de la BCEAO, N°1). Dakar, Senegal.

Ouédraogo, S., 2017. *Bank ownership, foreign bank origin and lending in West Africa*. Princeton University, Oxford-Princeton Global Leaders Fellow Colloquium.

Polity IV, 2014. *PolityProject*. Center for Systemic Peace.

Powo Fosso, B., 2000. *Les déterminants des faillites bancaires dans les pays en développement: le cas des pays de l'Union économique et monétaire Ouest-africaine (UEMOA)*. Ouagadougou.

World Bank, 2017. *World Development Indicators*. World Bank, Washington, DC.