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The building of a banking regulation in the West African monetary union (UMOA) in the early 1960s

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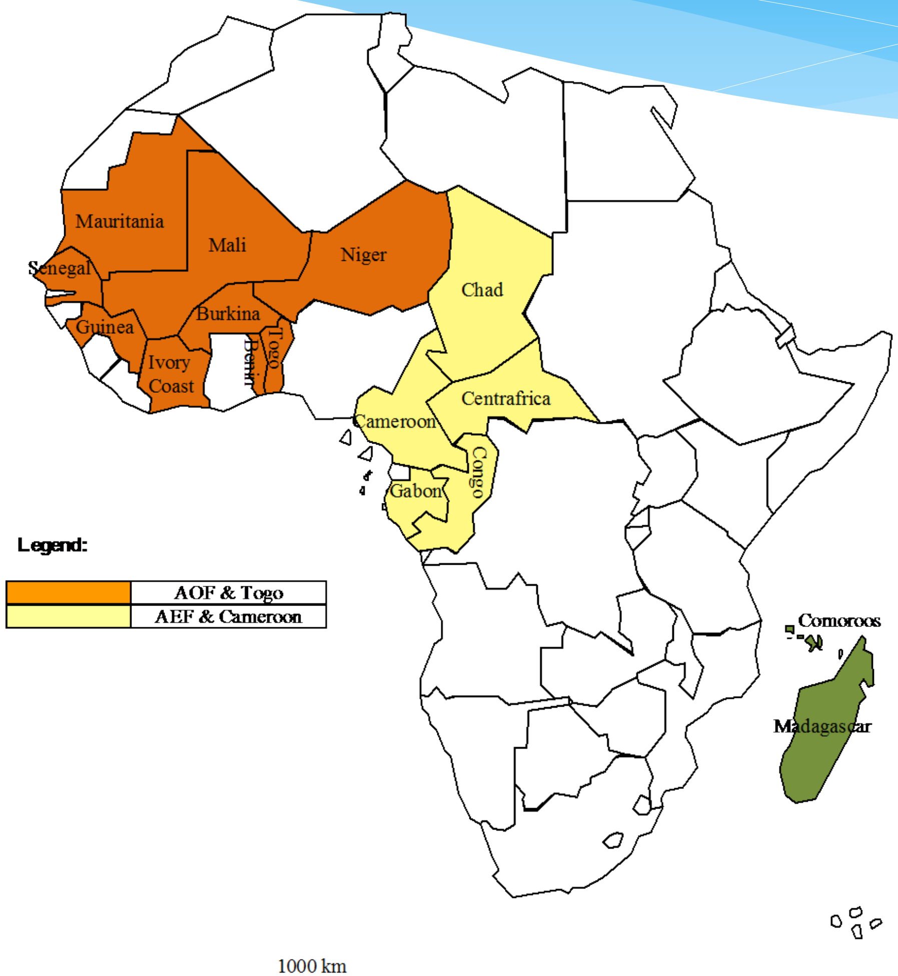
Introduction

* The turn of African independences radically changed the nature of the colonial Franc Zone
  * from a colonial monetary administration to a multilateral cooperation
* In the area of banking regulation, the colonial framework is substituted by new national legislations
  * BUT they have to converge to a supranational common framework, at the scale of the monetary union…
  * This complicated the construction in such a system in young independent States

French colonial areas in Africa in the 1950s



Map of the UMOA (1962)

- Questions :

  - What are the origins of these African legislations?
  - How heavy was the French influence in their elaboration?
  - What was the challenges in articulation between national and supranational scales ?

The Franc Zone in historical perspective

* Different steps on managing colonial currencies in Africa
  * First: try to impose French franc as legal currency, as a mark of sovereignty
  * Mid-19th C.: diffusion of coins & banknotes issued locally (private banks)
    * Recognition of local particularisms in terms of change and credit

* 1939 WW2 : France decided to settle down an Exchange control between mainland France and Empire in one hand, and outside world in another hand.
  * This gave the zone a cohesion it never had.
  * The official criteria of membership of the Franc Zone was, until the African independences in the 1960s, the inscription on the official list of territories for which the French exchange control was not to apply

* Technically: the mechanism of the “operation account”

* This system is built upon four main principles:
  * the convertibility of the currencies connected to the French Franc by a fix parity
  * the free circulation of capital inside the monetary zone
  * a common exchange regulation
  * the pooling of foreign reserves

* In exchange of a fixed monetary parity between the French franc and the local currency, States must make a deposit of their foreign reserves on this account, hold by the French Treasury.

The institutionalisation of the Franc Zone

- 1945: A unique currency: the Franc CFA.
- 1959: Creation of a central bank, the BCEAO.

BCEAO
BANQUE CENTRALE DES ETATS DE L'AFRIQUE DE L'OUEST

- 1962 : Agreements
  - Creation of the UMOA between the African States.
  - UMOA signed a cooperation with France (Matignon agreements).

- No banking regulation but a central credit surveillance system (centralisation of risks) since 1953 (inspired by French experience since 1946).

The definition of a common framework of banking legislation

- These new states had to promulgate new national legislations to replace the former colonial legal framework and regulate the banking sector inside its borders. But these national legislations should also converge, at the scale of the monetary union.
  - Guidelines document edited by the central bank
- Not surprisingly, many structures of the recommended organisation were inspired by the French one:
  - National Credit Councils: by-product of the French *Conseil National du Crédit* (1945)
- A third of the members of the BCEAO board were French.
  - Main difference
    - French were technicians civil servants (Banque de France, Ministry of Finance)
    - Africans were politicians

- But if French could impose their views, the importation of French tools was not total.

Adaptation to the African situation : *The definition of capital ratios*

- In this matter, the French organization could not be imported.
  - France: level of minimum capital was fixed low, to encourage the existence of small local banks
  - Africa : there was no interest to encourage small private banks in countries where banking structures were still basic and the number of existing banks generally too high compared to the global volume of operations they could manage.
- Necessity to take care of the differences between the national economies
  - Countries like Niger or Mauritania did not offer the same properties than others like Senegal or Ivory Coast.
  - Example of the three first countries which had promulgated their national law

Minimum capital	Banks	Financial institutions
Haute-Volta	50 M.	10 M.
Mauritania	50 M.	10 M.
Senegal	250 M.	50 M.

Relations between States and Central Bank

* The texts promulgated by the UMOA States in matter of banking regulation entrusted the application of these decisions to the new national authorities and to the central bank.

  * PB : “the modalities of intervention and the implementation of the central bank’s verifications on each place had been not précised” (BCEAO). Underline the problem of relationships between national and regional authorities

  * CB finally inherited the charge of carrying out controls
    * Its headquarters were still in Paris and its national branches in Africa had no sufficient and well qualified staff to accomplish it.
      * Solution : They ask the Banque de France to lend them employees and insure training for the future recruited African staff.

* To limit its labour shortage, the CB decided to adopt modest objectives:
  * Did not proceed to systematic checks
  * But only targeted controls in case of a report from the national authorities
    * That gave an important role to the national institutions (which names differed in each country)
* Problem of the costs generated by the system:
  * In Senegal, costs were supported by the professional association of bankers
  * PB : What to do where there is no professional association
    * BCEAO didn't want to the support these financial charges
    * States had to finance it (which is the same because the capital of the CB is funded by States)

Concluding remarks

* On September 1966, the BCEAO noticed that national legislations converged with common framework on three main points:
  * General conditions for banks
  * Rules and ratio of liquidity or solvency
  * Minimum capital for banks and financial institutions

* The architecture of the UMOA banking regulation follow, *de facto*, two main principles:
  * Importation of structures from the French experience
  * Practical adaptation of measures regarding the African situation (and the national contexts inside the Zone)

* Important role played by the Banque de France to compensate for labour shortage and professional training of African employees.