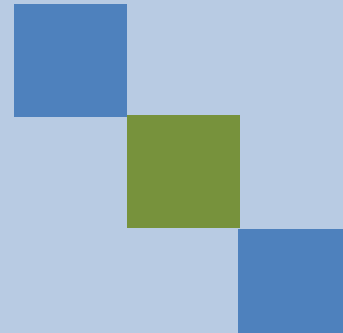




## Africa Trade Policy Notes Note #23



# Lowering the Cost of Payments and Money Transfers in UEMOA

Thilasoni Benjamin Musuku, Maria Chiara  
Malaguti, Andrew McEwen Mason, and  
Ceu Pereira\*

July, 2011

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 UEMOA countries use a common currency, the CFA Franc (FCFA). The currency is controlled and issued by the region's central bank, BCEAO. Additionally, UEMOA has a common modern payments infrastructure, which ought to facilitate widespread access to basic transactional payment instruments and transmission circuits.

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 information provided 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 UEMOA population has a bank account.

There are new players seeking to enter the payment services market in UEMOA. This is considered a healthy indicator of the opportunities that exist for competitive (and competing) transactional products and services to overcome some of the inefficiencies and product gaps that still exist. However, given the new players, underlying money transfer costs for final users have not decreased to the extent expected.

Recent technological developments such as mobile payments provide the context for the analysis provided in this note. Technology opens up opportunities to increase the reach of financial services, expand the scale of operations and reduce costs, thereby enabling usage of existing infrastructure to greater potential.

This policy note had two principal objectives: The first is to identify opportunities for and barriers to reducing the cost of money transfers between and within UEMOA member countries.

The second objective is to identify means of further extending the reach of modern payment services and promoting access to basic transactional services to a much broader cross section of the population than the current user base.

### **The Current Payments Landscape**

The BCEAO Regional Payment system Project produced high-quality basic infrastructure to deal with both wholesale and retail payments. With the *Système de Transfert Automatisé et de Règlement*<sup>1</sup> (STAR), *Système Interbancaire de Compensation Automatisé*<sup>2</sup> (SICA) and *Groupement Interbancaire Monétique*<sup>3</sup> (GIM), UEMOA countries have a world-class clearing and settlement infrastructure. However, the infrastructure remains markedly underused and usage costs, although lower than before, remain very 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.

Overall, the payments landscape of UEMOA exhibits several distinct characteristics and trends as follows:

***(i) Shallow penetration of formal channels and services:*** There is a well-established formal banking sector, but it serves a very small percentage of the population. Most of the population remains “unbanked” and reliant on cash. This is well recognized by BCEAO and measures are being taken to address this issue. For example, in August 2007, BCEAO hosted a seminar to consider how to promote

---

1 Automated Transfer and Settlement System.

2 Automated Interbank Clearing System.

3 Interbank Payment Card Group.

“bancarisation” and the use of non-cash payment instruments. The seminar was attended by a cross section of financial sector stakeholders and produced a set of action plans for BCEAO, banks, the bankers’ association, the banking commission and the UEMOA governments.

As a result, the government of Senegal, in partnership with Ecobank, has launched a program to encourage university students to open bank accounts with associated bank cards. The government then pays student allowances into these accounts, and students can use their cards to make payments and cash withdrawals at Ecobank branches and ATMs on university campuses. Also, GIM-UEMOA, the interbank card switching and clearing service, is actively working to widen its membership to include the broadest possible range of operators, including mobile telephone payment operators.

It is unclear to what extent these actions have resulted in measurable increases in “bancarisation”. This problem is complex and may well need to be addressed through a more holistic approach.

***(ii) Cash is by far the dominant payment instrument used in UEMOA:*** As previously noted, only some 10 percent of the population has bank accounts, which means that 90 percent or more of the population have no access to basic transactional instruments such as electronic credits and debits, EFTPOS or even checks. Remedies for this situation are rapidly emerging as a result of innovative electronic payment instruments and circuits that do not require users to have a bank account. However, these new services are still at an early stage of introduction and have as yet not achieved a critical mass. Cash therefore remains king.

Checks account for the great majority of all non-cash payments. According to data provided by BCEAO, in 2008 interbank checks accounted for 86 percent of SICA-UEMOA transactions by volume and 87 percent by value.

**(iii) New players and services hold great promise:** The established “duopoly” of commercial banks and international money transfer operators (MTOs) is being increasingly challenged by a range of new entrants into the payment services market, most of them indigenous. These new entrants are seeking to exploit a variety of opportunities to offer payments and money transfer services, generally using modern technologies such as mobile phones and cards.

A common thread among these services is the goal of operators to reduce the cost of transferring money and thus enhance inclusion to those who cannot afford bank accounts. For example, although all of these service providers have contractual arrangements with licensed banks where they hold funds as required under BCEAO regulations, they do not require the customer to have a bank account. Although there is still considerable scope for further cost reductions, their services are predicated on low fees as well as speed and convenience. Nonetheless, there is little interoperability between these newer payment systems and services, and few currently use existing BCEAO infrastructure.

While most of the new market players that participated in this study spoke enthusiastically about the number of new customers they had attracted, in terms of absolute numbers, they are barely scratching the surface. There is a lack of vision on the part both established and new service providers. They appear to see the market only in terms of their own small

customer base, rather than considering the potential for growing the overall user base to encompass the entire population of UEMOA. There is an opening here for collaboration rather than competition when it comes to provision of basic payment system services.

**(iv) Important role of remittances:** Traditionally, there have been strong inward remittance flows from diaspora communities in European countries such as France and Italy, and from the United States. These have been serviced primarily by well-established international (foreign-owned) MTOs, which often have exclusive agency relationships with banks in recipient countries. The flows have therefore traditionally been from developed economies to less-developed UEMOA economies (from north to south).

In the last few years, these payment flows have been supplemented by increasing flows within the region (between east and west). These flows are driven by labor migration between UEMOA countries. To a large extent, they rely on people physically carrying cash between countries, but new entrants to the payments scene are offering intra-regional money transfer services with some success. For example, the indigenous MTO Money Express is seeing increasing volumes of transfers between UEMOA countries.<sup>4</sup> Some commercial banks are also starting to focus on intra-regional transfers.<sup>5</sup>

Within UEMOA, all MTOs are required to operate through agency agreements with other financial institutions such as banks or Poste Finances. Most banks and other financial

---

<sup>4</sup> Source: discussion with Poste Finances, Togo, June 2010.

<sup>5</sup> Source: discussion with Financial Bank, Togo, June 2010.

institutions offer money transfer services from only a few MTOs. This may be convenient for the banks, and is claimed by some banks as being less confusing for customers, but also probably has the effect of keeping the cost of transfers higher than it would be if there was more rigorous competition.

***(v) Many different institutions issue payment cards:*** GIM-UEMOA members also have the option of installing and operating their own card terminal networks or participating in GIM-UEMOA's own network. Members of GIM-UEMOA issue their own debit cards, but have the option of co-branding them with the GIM-UEMOA logo. According to data provided by GIM-UEMOA, approximately one million GIM-UEMOA branded debit cards have been issued to date.

In addition to GIM-UEMOA-branded cards, many banks also issue their own cards, which can typically only be used at their own outlets. These include both debit and prepaid cards. Other non-bank financial institutions (NBFIs) are also starting to issue their own cards, based on funds held in a bank with which the NBFI in question has an agreement.

Several factors limit the growth in usage of these cards. For instance, having a GIM bank card presupposes that the card holder has a bank account. Accordingly, the low level of "bancarisation" in UEMOA member countries is a key factor limiting the use of card products. With fewer than 1,000 ATMs and 2,000 EFTPOS terminals, there is little incentive for consumers to acquire a card. The cost of acquiring and using a GIM card is high relative to most consumers' financial resources. Not all bank-issued cards carry the GIM-UEMOA logo, so they can only be used at the issuing institution's outlets. This appears to reflect the desire of

some financial institutions to carve out market share at the expense of interoperability and growing the overall market. This is a major impediment to the development of the overall UEMOA payments system.

In order to encourage as many operators as possible to join GIM-UEMOA, it may be useful to examine the procedures and costs of becoming a member, to ensure that these factors do not act as a deterrent to smaller operators. A tiered membership structure could help improve the situation, with smaller card operators connecting to GIM-UEMOA via the networks of full GIM-UEMOA members.

***(vi) Mobile payments are becoming popular:*** A recent trend in UEMOA is the emergence of non-bank players in the market that have identified a variety of opportunities to offer payments and money transfer services, typically using modern technologies such as mobile phones or cards to access services. Although those providing such services have contractual arrangements with licensed banks for holding funds (as required under BCEAO Regulations) they do not require the customer to have a bank account.

Most of the new mobile telephone-based services appear to be single country-based, at least initially. This may be due to the fact that each country has its own telecommunications licensing and regulatory regime, and also the fact that any financial service is required to be separately licensed by BCEAO for each country in which it is offered. Nevertheless, MNOs are planning to offer mobile payment services progressively across the UEMOA region. While these will be stand-alone operations at first, in the longer term they may be interconnected.

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.

### **The Legal framework Applicable to Payment Services**

In recent years, new technologies have changed the landscape in the payments industry. Technology has fostered new entrants into the payments market, allowing non-financial institutions to offer new services that in some circumstances do not require opening a bank account. This in turn has highlighted the need for legal reforms designed to ensure a level playing field between established operators and new entrants.

The legal and regulatory framework applicable to payment systems and services should contribute to bringing the highest level of safety, efficiency, cost effectiveness, fairness and convenience to the maximum number of businesses and individuals. Although new pieces of legislation, such as the e-money instruction, have been introduced in UEMOA in recent years, most provisions in the existing framework relate to the banking sector and paper-based instruments.

Directive 08/CM/2002/UEMOA introduced a number of provisions to discourage the use of cash and to promote the use of bank-based payment channels. Although these instruments also include electronic transfers and direct debits, they are not given specific preference

compared to checks, the use of which far outweighs that of all other payment instruments. Indeed, the Directive does not make reference to more innovative channels or electronic instruments based on mobile telephones or prepaid cards offered by non-bank financial institutions.

Lower use of cash as a consequence of Directive No. 8/2002/CM/UEMOA, would actually result in a move from one inefficient and costly paper-based instrument to another. Using checks is slightly more efficient but does not signify a major adoption of “modern payment instruments and procedures”.<sup>6</sup>

Moreover, the coverage provided by the legal framework as regard new players, such as non-bank payment service providers, is still unclear. Despite the existence of the e-money instruction, most players still cannot provide services without bank intermediation. This is the result of potential inconsistencies between (i) the Banking Law, which builds regulation of payment services and systems around banking activities; (ii) Regulation No. 15, which leaves open the possibility for other entities to issue and manage payment instruments but links payment services to a bank account; and (iii) BCEAO Instruction No. 1, which regulates e-money but is meant to implement Regulation No. 15 and cannot exceed its scope of mandating only bank-based models.

One typical concern about extending operation of payment services to non-financial institutions is the risk that anti-money laundering and anti-terrorism measures would become more difficult to apply. In the case of UEMOA,

---

<sup>6</sup> BCEAO. 2007. “The new payment systems in the West African Economic and Monetary Union (WAEMU)”.

Directive No. 7/2002/CM/UEMOA of September 19, 2002 on money laundering has been adopted and there is a harmonization law to cover anti-money laundering. A consistent policy covering all payment service providers can be calibrated on a risk-based basis to the needs of a given type of service.

### **What Factors are Limiting UEMOA money transfers?**

The payments infrastructure in UEMOA is world-class in terms of functionality and capability. It should be facilitating broad-based access to basic transactional services, whether by individuals or businesses at low cost. Below are some of the challenges to be overcome to increase usage of the system beyond a very small fraction of potential users:

#### ***Cost***

The implementation and deployment of electronic services requires providers to make significant investments in networks and access points, and over the life of the system providers must be able to recoup this investment. As a result, the cost of using electronic payment services is still very high and thus out of reach of the majority of the population, even though some of the new services (such as mobile payment services) are available at appreciably lower cost than the more well-established services (such as those provided via GIM-UEMOA).

Service providers may need to consider how best they can attract a much larger user base, perhaps by forgoing a higher level of profitability in the short term in the interests of building the market overall. If non-cash payment services are to achieve critical mass, costs must come down. But to a certain degree

this is a chicken-and-egg situation: fees can only come down with very high transaction volumes that can only be attained when the fees are low.

#### ***Availability of electronic terminals***

The deployment of ATMs and EFTPOS terminals is seriously inadequate whether measured in relation to the size of the population, geographical extent of the UEMOA countries or even the number of bank accounts. This severely limits take-up of card-based payments.

There is also no fundamental reason why the use of ATMs and EFTPOS terminals should be confined to holders of bank-issued cards. Institutions other than banks could be encouraged to issue cards usable in ATMs and EFTPOS terminals, without being tied to specific banks. This could provide an expanded role for GIM-UEMOA, particularly if it develops into the switch for all payment services, not just bank-operated systems.

#### ***Interoperability***

Another key factor for rapid and widespread uptake of electronic payment circuits is interoperability. If electronic payment services are to be adopted more broadly, cards or mobile phones must be usable not only with their own systems or mobile networks but also with other systems not covered by the “parent” system.

Card-based payment services in UEMOA do exhibit a great degree of interoperability due to the existence of the GIM-UEMOA card switching and clearing system. The picture is less encouraging for emerging mobile phone-based payment services, which in general are not interoperable. Some mobile operators claim that interoperability of “mobile money” is

prohibited under the rules of the telecommunications regulators, although interoperability is clearly encouraged for voice and SMS services.<sup>7</sup> Mobile payment operators may be reluctant to contemplate interoperability for a variety of reasons including need to protect their market share. The complexity of devising appropriate agreements and commercial arrangements, for example for charging and/or revenue-sharing, may also hinder the development of suitable arrangements among mobile operators and inter-bank switching services.<sup>8</sup>

The overall lack of interoperability is a significant brake on the development of emergent electronic payment services, particularly cross-border mobile payment services where UEMOA has potential given a common currency and single overseer for payment systems.

### ***Legal and regulatory barriers***

The assumption that the provision of payment services requires some form of intermediation by banks entails that the current legal framework does not fully foster innovation or promote a level playing field. This not only makes it difficult for new players to compete with banks, but also lessens pressures to reduce costs. With regard to MTOs, although exclusivity agreements are prohibited by BCEAO, requiring bank intermediation results in payment of commissions that are inevitably passed on to users.

It is also difficult for a payment service provider based in one UEMOA country to expand into

---

<sup>7</sup> Source: discussion with Sonatel 13 April 2010.

<sup>8</sup> Source: *ibid.*

other countries, because it must comply with local regulations and be licensed separately in each country. This represents a significant administrative burden that can make it unattractive to offer a service across the entire UEMOA sub-region. There is clearly a need – and opportunity – for the introduction of a system of mutual recognition whereby a service sanctioned by one country can be “cross-licensed” in other countries - similar to the EU passport system model for service providers.

### **Policy Suggestions for the Way Forward**

A number of private sector players have introduced or are in the process of introducing new products and services based on innovative uses of modern technology. This demonstrates significant dynamism in the market. However, the introduction of new products and services is having a limited impact in driving overall transaction costs lower or encouraging greater financial access. One important reason for this is the lack of interoperability of new products and services leading to market fragmentation. Combined with the difficulty of establishing cross-border extension of payment services, this reduces the scope for reaping economies of scale and thereby the growth of the overall payments market. To make progress on these issues the next critical step is:

#### ***Develop a UEMOA payments system strategy:***

National payments systems in UEMOA are developing rapidly and they are much more complex today than just a few years ago. Addressing payments system complexity and issues associated with terminal availability and interoperability requires a much greater degree of oversight of the payment system by the central bank than is currently exercised. At present, there are only three professional staff in the oversight unit at BCEAO.

BCEAO should take the lead in developing a comprehensive UEMOA-wide payment system strategy, building on the clear success of the 2000-2007 BCEAO Payment System Project. There is growing fragmentation, high cost, low usage of existing infrastructure and foundations of the legal and regulatory framework requires updating.

As the central bank of UEMOA, BCEAO is ideally placed to bring together all stakeholders throughout the Union to develop a holistic strategic plan focusing on improving financial access and ensuring broad acceptance of electronic payment products.

The successful articulation and execution of a holistic payments strategy would provide governments of UEMOA member countries, international development agencies and other partners with a strong strategic platform on which to provide further support for improving the payments landscape.

Within this strategy it will be necessary to address the following:

***Develop BCEAO oversight of payment systems:***

The UEMOA payments system is developing rapidly in a number of areas. While this is a sign of a healthy market, it reinforces the need for BCEAO to strengthen its oversight capability. This will lessen barriers to market developments and ensure that developments benefit the entire community and economy at the highest levels of safety, risk mitigation and consumer protection. In particular, the exercise of effective oversight should:

Encourage all players to work together towards achieving the greatest possible level of systems interoperability in the interest both of their

customers and in the interest of the overall market.

Encourage (or require) all card payment (monétique) service providers to join GIM-UEMOA.

- Ensure there are pressures on payment service providers to reduce fees on an ongoing basis.
- Make it easier for financial and payment services to be cross-licensed or recognized in multiple member states, and thereby stimulate cross-border payments.
- Encourage rapid and broad-based deployment of interoperable “end-point” merchant devices where electronic payments can be accepted. These devices should include mobile phones in addition to EFTPOS terminals.
- Ensure that services are introduced in an orderly and safe manner, observing strong consumer protection.

***Interoperability of payment systems and services:***

The interoperability between payment systems in UEMOA needs to be accompanied by agreements by private sector participants on keeping fees among networks to a minimum otherwise the increase in volumes may not materialize. There are several measures that can be taken:

- Ensure that legal and regulatory barriers to interoperability are removed.
- Work closely with telecommunications regulators in all UEMOA countries to ensure that regulations are consistent and do not inhibit interoperability.
- Develop and implement ways of massively increasing transaction



volumes through GIM-UEMOA. GIM-UEMOA is woefully underused system, which leads to inefficiencies and high cost structures.

- Using the payments system strategy, BCEAO should engage all market players in meaningful and ongoing consultation to encourage interoperability, including taking advice on limiting factors and ways to overcome them.

**\*About the Authors**

*Thilasoni Benjamin Musuku and Andrew McEwen Mason are consultants in the Africa finance and private sector development unit. Ceu Pereira is a payments systems specialist and Maria Chiara Malaguti is a consultant in the Financial Infrastructure unit. This note is an abridged version of the report on “Lowering the Cost of Payment and Money Transfers in UEMOA” prepared under general guidance of Michael Fuchs. This work is funded by the Multi-Donor Trust Fund for Trade and Development supported by the governments of the United Kingdom, Finland, Sweden and Norway. The views expressed in this paper reflect solely those of the authors and not necessarily the views of the funders, the World Bank Group or its Executive Directors.*