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Exploring barriers to remittances in sub-Saharan Africa series

Volume 5

Remittances in Côte d'Ivoire

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UKaid
from the British people

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Acronyms

AML/CFT	anti-money laundering and the combating the financing of terrorism
API	application programming interface
ARTCI	Autorité de Régulation des Télécommunications
ATM	automated teller machine
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BoP	balance of payments
CDI	Côte d'Ivoire
DITT	Direction de l'Informatique et des Traces Technologiques
ECOWAS	Economic Community of West African States
EMI	e-money issuer
FATF	Financial Action Task Force
GDP	gross domestic product
GIABA	Governmental Action Group against Money Laundering in West Africa
GIM-UEMOA	Regional switch
KYC	know your customer
MFI	microfinance institution
MNO	mobile network operator
MMO	mobile money operator
MTO	money transfer operator
NBFI	non-bank financial institution
OTC	over-the-counter
POS	point of sale
RSP	remittance service provider
RTGS	real-time gross settlement
SICA-UEMOA	Automated Interbank Clearing System
SSA	sub-Saharan Africa
STAR-UEMOA	Automated Transfer and Settlement System
USD	US Dollar
USSD	unstructured supplementary service data
WAEMU	West African Economic and Monetary Union
XOF	CFA franc

Key definitions

Mobile money operator (MMO):	A licensed mobile money service provider that develops and deploys financial services through mobile phones and mobile telephone networks.
Mobile network operator (MNO):	A company that has a government-issued licence to provide telecommunications services through mobile devices.
Remittance service provider (RSP):	An entity providing services that enable the transfer of remittance funds.

Source: Authors' own based on AFI (2013)

About the barriers to remittances in SSA series

The average cost of remittances to SSA is currently 9.4% of the value of the transaction, compared to the global average of 7.1% (World Bank Remittance Prices Worldwide, 2018). Informal flows are rife – especially in SSA – and the trend is increasing in many corridors. High amounts of informal remittances, coupled with the high cost of formal remittances are indicative of a formal market that is not functioning optimally to serve people's needs. The G20 and the Sustainable Development Goals (SDGs) made an explicit target to reduce the price to between 3% and 5% of the transaction value. However, a fine balance needs to be struck between lowering the cost and keeping remittance business profitable for providers, especially in hard-to-reach areas, so that access for rural consumers is not compromised. To do so, there needs to be an understanding of the market impediments that are preventing formal costs from decreasing and hinder further access expansion for consumers. This includes an understanding of both informal and formal flows and the various barriers that constrain the formal market.

This note is the sixth in a series of seven notes that explore the barriers to remittances in sub-Saharan Africa (SSA) to conclude on what is required to enable the formal market to fulfil its true potential.

The series is organised as follows:

- Volume 1 provides an overview of key remittance corridors in SSA, from the perspective of both the receiving and sending countries. It analyses the correlation between migration and remittances and introduces a categorisation of countries.
- Volume 2 outlines and ranks the market barriers to the efficient flow of remittances in SSA, drawn from existing literature and in-depth stakeholder interviews.
- Volumes 3 to 6 explore how the barriers manifest in the region by presenting four country case studies from SSA (namely Uganda, Ethiopia, Nigeria and Côte d'Ivoire).
- Volume 7 draws conclusions and recommendations for SSA on how to overcome the barriers to reduce informality and costs without compromising access in the region.

This note explores the state of the remittance sector in Côte d'Ivoire and unpacks the key challenges and best practices within the industry, drawing on in-country stakeholder consultations in July 2018 and desktop research.

1. Introduction

A lifeline for households. Remittances are non-reciprocal transfers of money from an individual or household in one place to another individual or household in another place[1] (Hougaard, 2008). They can take many forms but are typically associated with working migrants that send regular amounts of money to support their families and communities back home. The advantage of these payments is that they usually flow directly into the hands of households, which increases household income and reduces the likelihood of households falling into poverty (International Organisation for Migration, 2005). This monetary support has positive effects on both education and health outcomes and it has been shown to support human capital development particularly in children (Gupta and Pattillo, 2009; Hassan et al., 2017).

Monetary union offers unique remittance market perspective. Volume 1 of this series (*Where are the flows?*) revealed the importance of Côte d'Ivoire (CDI) as a net sender of remittances in SSA. CDI is home to a diverse set of migrant groups, mainly from West Africa, making it an important case study to understand the realities of the francophone West African remittance market. CDI and its neighbours form part of an economic and monetary union[2] which shares a common currency and harmonised regulatory frameworks. These conditions create an enabling environment for cross-border remittances in the region. Foreign exchange margins drive a big share of the remittance cost as discussed in Volume 2 (*Market barriers to remittances in SSA*), hence understanding the unique barriers in the absence of these margins makes for interesting learnings for other markets. Furthermore, CDI is a regional leader in mobile money penetration, including being the first country allowing mobile money transfers between three economies[3].

CDI case study outline. This case study outlines the barriers and enablers of remittances in CDI. It is organised as follows:

- Section 2 introduces the remittance sector in the country, including remittance flows, the actors, the regulatory framework and the infrastructure underpinning the money transfers.
- Section 3 discusses the country-specific remittance barriers and enablers in terms of business case, regulation, infrastructure and consumer-facing elements.
- Section 4 offers recommendations and conclusions for actors already active in the market and for those who wish to enter.

1 Remittances can be "domestic", meaning that the sender and receiver of the remittances are within the same country (but still in disparate locations), or "international", meaning that the sender transfers money from one country to a recipient in another country (Hougaard, 2008).
2 West African Economic and Monetary Union (WAEMU).
3 Orange Money International Transfer, which links up Côte d'Ivoire, Mali and Senegal is the first example of mobile money transfers between three markets, enabling six distinct remittance corridors, including one of the largest flows in sub-Saharan Africa: Côte d'Ivoire to Mali. It is also an example of 'intragroup', in-house implementation (GSMA, 2015). Other network operators such as MTN have since followed suit, offering transfers, for example, between Burkina Faso and Côte d'Ivoire.

2. Remittance sector overview

2.1. Market trends

CDI net sender of remittances. Remittance inflows into CDI in 2016 amounted to the equivalent of around 1% of the gross domestic product (GDP) (World Bank, 2016). Outflows are roughly three times higher than inflows, making CDI a clear net sender of remittances. This indicates that CDI is an important destination for migrants. Both remittance inflows and outflows have increased over the past 20 years as Figure 1 shows. After a slight dip in the amount of inflows after 2014, estimates for 2017 indicate a recovery back to 2014 levels. Outflows also reached their peak in 2014, with USD746 million being remitted from CDI. In 2015, the value dropped to USD650 million (no outflows data is available for 2016 and 2017).

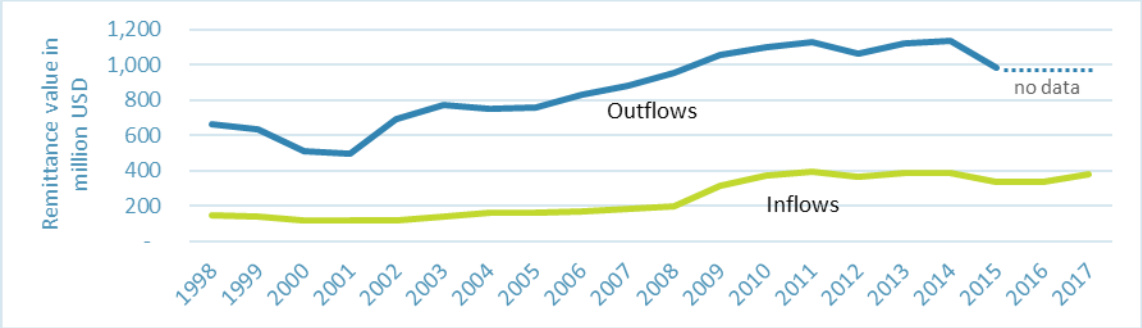


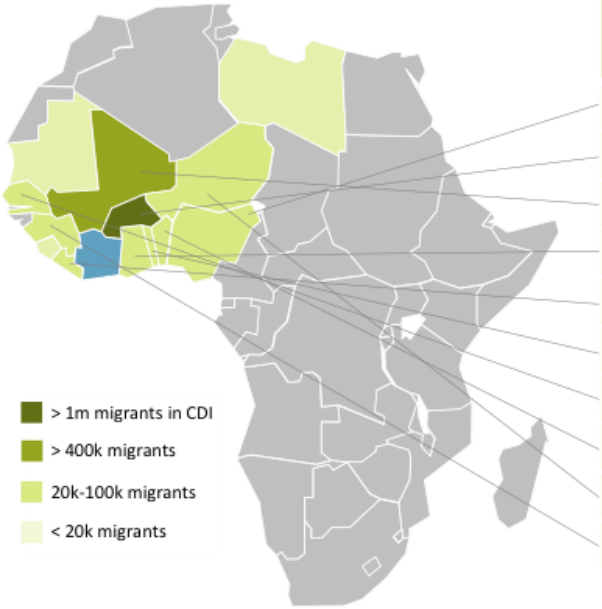
Figure 1: Côte d'Ivoire remittance inflows and outflows over time

Source: World Bank (2016)

West African neighbours dominate migration and outflows. According to 2017 World Bank migration estimates, CDI has the second largest stock of migrants in Africa after South Africa. A total of about 2.3 million migrants live in CDI. This amounts to 10% of the total population. Virtually all of these migrants are originally from other West African states neighbouring CDI, making the country a melting pot in the region (World Bank, 2016). This is also reflected in remittance outflows, as Figure 2 shows. All remittances that leave the country stay within West Africa: Over 50% of migrants in CDI come from Burkina Faso alone, and USD343 million is sent annually from CDI to its neighbour. Mali follows as a close second in terms of remittances received. Other large migrant source countries include Guinea, Liberia, Benin, Togo and Niger, each receiving a sizeable share of remittance funds. Interestingly, only about 44,000 Nigerian migrants live in CDI, yet the highest value of remittances flows to Nigeria – around USD612 million annually (World Bank, 2016)[4].

Having such a diverse migrant base implies that remittances services need to cater for a diverse set of needs and corridors.

[4] Potential reasons could be that Nigerians living in CDI earn a higher income than other migrant groups and are hence able to send more money back home. Alternatively, the captured remittance data might include some trade flows as well, inflating the numbers artificially. Nigerian churches are popular in CDI and the remittances captured could include donations and membership fees.



Destination	Remittances (USD million)
Nigeria	612
Burkina Faso	343
Mali	335
Ghana	96
Liberia	93
Togo	42
Senegal	41
Benin	32
Niger	26
Guinea	19

Figure 2: Migrant stocks in CDI with source country and CDI remittance outflows

Source: World Bank migration (2017[5]) and remittances data (2015)

Inflows mainly from other West African countries. In total, around one million Ivoirian migrants live abroad. Over 50% live in Burkina Faso and most remittance inflows into CDI originate from there (USD187 million annually). Liberia is the second most popular destination, with around 150,000 Ivoirian migrants (USD50 million is sent into CDI from there). The second-highest value of remittances is received from France (USD55 million) where around 90,000 Ivoirian migrants live. The United States and Italy are the only other non-African destinations in the top 10, yet a relatively small share of remittances (USD7 million and USD14 million, respectively) is received from those countries. Overall, CDI receives around 75% of remittances from other West African countries, while around 25% is received from Europe and North America (World Bank, 2016).

MTOs – and increasingly MNOs – dominate formal remittance market. Given the diverse migration background in CDI, there is a high number of remittance service providers facilitating cross-border remittances in the different corridors. In all, 28 banks, eight money transfer operators (MTOs), three mobile network operators (MNOs) and the post office offer cross-border and domestic remittance services. Stakeholder interviews suggest that the preferred provider varies between corridors, largely dependent on migrant groups' trust. Due to political crises in the past, which weakened consumer trust in local banks substantially, as well as historic failures of several public banks, consumers largely shun utilising remittance transfers via bank accounts (World Bank, 2016). While over-the-counter (OTC) services via MTOs dominate the formal cross-border market, mobile money has developed exceptionally rapidly in the domestic market: almost 70% of domestic remittance senders and recipients transfer and access remittances through a mobile operator – an increase of almost 20% since 2014 (Findex, 2017)[6]. Additionally, the three MNOs offer international remittance services to several

[5] The World Bank publishes migration matrices only every four years. A comparison between 2013 and 2017 figures revealed no drastic change in migration stocks, which led to the assumption that 2015 remittance flows (2016 and 2017 remittance value data not available) can be reasonable compared to 2017 migration stocks.

[6] However, most of these transfers are done at the agent with consumers taking the cash to be paid via mobile money, i.e. technically these transfers are also done in cash and over the counter. MicroSave has found that the relative ease of implementation and practical usefulness of over-the-counter services to customers has made it attractive for providers trying to build transaction volumes

markets across West Africa, with values sent through the mobile channel ever increasing. The CDI to Mali corridor sees one of the largest mobile money flows in SSA (GSMA, 2017).

Informality rife despite relatively low remittance fees. Prices are fairly competitive. For example, the average cost to send USD200 from France to CDI is around USD11 or just over 5% of the total amount. This is almost in line with the 3%-to-5% target outlined in the SDGs. A sender can choose from 14 different providers in this corridor and the recipient can receive the remittance in cash, a bank account or a mobile wallet, often in less than one hour. Sending USD200 from CDI to Mali costs less than USD6 or 2.7% of the amount sent. There are four providers that send the money either in cash or into a mobile wallet. For example, Orange Money promises near real-time transfers via mobile money to Mali at a cost of 1.6% (World Bank, 2018). Despite these relatively low prices, stakeholder interviews revealed that sending and receiving remittances through informal channels, both domestically and cross-border, is rife. Informality estimates vary between 40% and 70% of the market with trust cited as the main driver (CGAP, 2013).

2.2. Regulatory background

CDI part of WAEMU; remittances regulated by BCEAO. CDI is a member of the West African Economic and Monetary Union (WAEMU[7]), an evolving free trade zone, which uses the common currency CFA franc (XOF) – pegged at XOF656 to the euro (OANDA, 2018). The French treasury holds the international reserves of the WAEMU member states. The WAEMU's central bank, *Banque Centrale des États de l'Afrique de l'Ouest* (BCEAO), exercises exclusive authority over the money supply and is the primary authority (with the participation of the regional Banking Commission) for the regulation and supervision of domestic and cross-border remittances. The BCEAO is in charge of supervising all payment systems in the region, including their security and smooth functioning. It authorises banks, microfinance organisations (MFIs), the post office and the Treasury to provide payment systems[8]. CDI retains legal authority in telecommunication regulation through the *Autorité de Régulation des Télécommunications* (ARTCI) and general consumer protection. Therefore, while BCEAO retains sole authority to regulate financial services from a financial consumer protection perspective, CDI has its own consumer protection laws and oversees institutions that impact financial services (CGAP, 2017). CDI is also part of the Economic Community of West African States (ECOWAS) and the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), which is an associate member of the Financial Action Task Force (FATF) (US Department of Commerce, 2015).

E-money promoted by BCEAO. In 2015, the BCEAO released an e-money instruction that enables issuers to accept funds from the public without having to obtain a deposit-taking licence[9]. E-money issuers (EMIs) can be banks, payments companies (non-bank financial institutions – NBFIs), MFIs and authorised non-financial companies. EMIs must meet separate standards on corporate governance and be solely dedicated to e-money issuance. The dominating MNOs have all set up e-money subsidiaries to use this EMI licence, while the post office's application is still being processed. Funds converted to e-money need to be placed in a

quickly. However, for providers seeking to build an ecosystem of mobile money, this practice raises questions around the relevance and sustainability of mobile money, around which the industry has yet to build a clear consensus (MicroSave, 2016).

[7] WAEMU has eight members, namely Benin, Burkina Faso, CDI, Guinea Bissau, Mali, Niger, Senegal and Togo.

[8] As per Instruction *N°127-07-08 du 9 juillet 2008 fixant les modalités de mise en œuvre de la surveillance par la BCEAO des systèmes de paiement dans les États membres de l'UEMOA*.

[9] As per Instruction *N°008-05-2015 régissant les conditions et modalités d'exercice des activités des émetteurs de monnaie électronique dans les États membres de l'UEMOA*. This instruction updates a 2006 instruction on the topic.

bank or MFI account set up for this purpose and may not accrue interest or be lent out (CGAP, 2017).

Use of payment agents possible; exclusive partnership agreements prohibited. Remittance service providers (RSPs) may use agents for e-money and rapid OTC fund transfers, including signing up clients to e-money accounts[10], cash-in and cash-out, as well as payment services. Retailers, MFIs, the post office and other NBFIs can all be deployed as agents with dependent subagents[11], which must be registered businesses. The issuer, however, remains legally responsible to its clients and third-parties for all of the services contracted out to its agents. For example, conducting the necessary due diligence on clients, providing security for transactions and having sufficient liquidity to honour transactions. Exclusive partnership or agency agreements are prohibited (CGAP, 2017).

KYC requirements not tiered but also not particularly onerous. Know your customer (KYC) procedures are defined in the 2015 WAEMU directive on money laundering and the combating the financing of terrorism (AML/CFT)[12]. Under this directive, identity information is to be collected when opening accounts or when transferring funds. Acceptable forms of ID must have a photo and may include national ID cards, passports, driver's licences, refugee cards and professional or student IDs (CGAP, 2017). The directive does not create KYC tiers based on the level of risk for neither financial institutions nor e-money issuers but is also not overly onerous given that, for example, proof of address is not required. CDI has not provided a risk-based approach to AML/CFT, i.e. the AML/CFT Act in force does not provide for the possibility for financial institutions to apply reduced or simplified measures even when the risks of ML or TF could be considered as low (FATF, 2013).

Forex controls only apply on transactions outside of WAEMU. The WAEMU has unified foreign exchange regulations under which there are no restrictions for transfers within the community through designated banks[13]. Any foreign exchange transaction, movement of funds or payment between a WAEMU member and a non-WAEMU country must however be done through the BCEAO, post offices or authorised agents. International transfers go through the BCEAO participant for coverage in XOF in the WAEMU Automated Transfer and Settlement System (STAR-UEMOA). Outward transactions require an authorisation request from the Ivoirian Minister of Finance with support documentation proving the nature of the transaction. Certain payments are exempt, e.g. allowances to residents who travel abroad and any money transfers below XOF500,000 – around EUR765 (ALB, 2018).

2.3. Infrastructure

Regional payment system infrastructure set up to leverage scale. A key feature of the WAEMU payment system is the single currency used by all member states. Retaining a common currency enables regional payments integration through a common payment system. This increases the speed and volume of settlements and leverages scale in flows to reduce costs. The more value and volume that flow through a payment system, the more sustainably it can be run, as the fees are usually collected per transaction. The BCEAO is responsible for the

[10] Under WAEMU Instruction No.008-05-2015 (Art.17) an e-money issuer is authorised to use agents for the marketing of related services, including to subscribe user agreements with customers (BCEAO, 2015).
[11] Under WAEMU Instruction No.008-05-2015 (Art.17) An e-money issuer's agent network can be organised around primary and sub-agents. While primary agents may outsource to sub-agents, the sub-agents fall under the mandate of the e-money issuer. In practice it is often OTC providers that manage agent networks once the initial financial institution partner has approved the agents to be registered (CGAP, 2017).
[12] As per Articles *18–29, 32–33, 40*.
[13] As per Regulation *N° 09/2010/CM/UEMOA*.

management of the WAEMU Automated Interbank Clearing System (SICA-UEMOA), the STAR-UEMOA payment systems[14], as well as the national switch (GIM-UEMOA), as outlined in Figure 3 below.

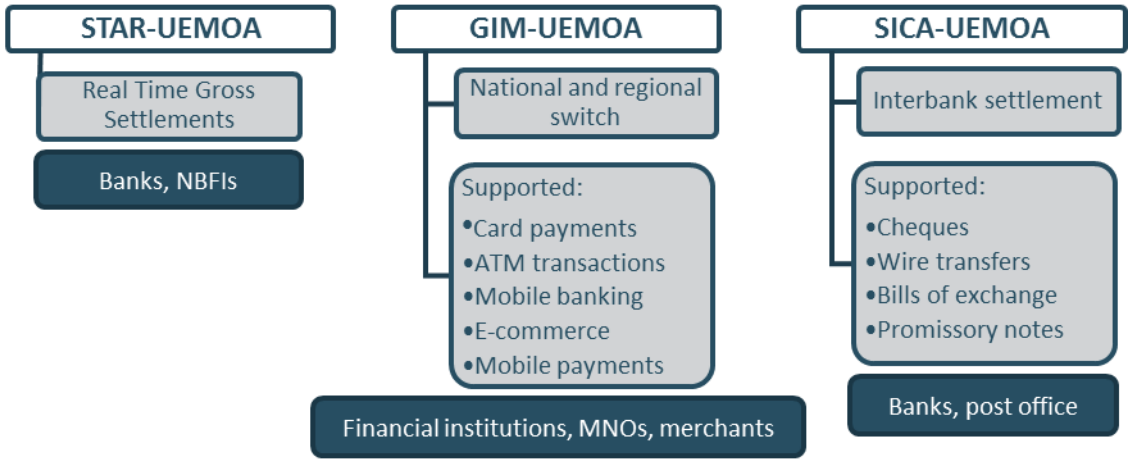


Figure 3: Setup of WEAMU regional payment system

Source: Adapted from IFC, 2012

The three elements have the following functions:

- **SICA-UEMOA** is an automated system for clearing of multilateral transactions. SICA-UMEOA clears batch files of various payment instruments, including digitised paper items such as cheques, for all participants within WAEMU. Payments processed through SICA-UEMOA are mainly ordered via transfers of less than XOF50 million (around EUR77,000). SICA-UEMOA allows participating financial institutions to execute payment orders received from their customers through an interbank clearing process. It is comprised of nine settlement systems (one regional system and one for each WAEMU member).
- **GIM-UEMOA** is a unique ATM and point-of-sale (POS) switch for card payments, ATM transactions and mobile payments across WAEMU. While MFIs and MNOs can technically connect to the switch if they are EMIs, they are currently not doing so.
- At the end of the clearing process, the balances per participant calculated by SICA-UEMOA are settled in **STAR-UEMOA**. STAR-UEMOA is the regional system for real-time gross settlement (RTGS) of urgent payments or systemically important transactions. STAR-UEMOA essentially handles interbank transfers, settlement of securities transactions (for liquidity purposes) and others in real-time, along with (delayed) wholesale settlement for SICA-UEMOA and GIM-UEMOA. No retail electronic fund transfer (EFT) system exists, which limits the remittances that can be processed account to account, which is generally the cheapest channel.

Participants are connected via the SWIFT network or the private BCEAO network. BCEAO supervises STAR-UEMOA and SICA-UEMOA and it owns a majority share in GIM-UEMOA. Membership in these payment systems is limited to BCEAO, banks, NBFIs (STAR-UEMOA) and treasury and postal authorities (SICA-UEMOA). Per-transaction commissions are set at XOF100 (EUR0.15) for SICA-UEMOA and XOF150–420 (EUR0.20–0.65) for STAR-UEMOA, depending on timing and volume (CGAP, 2017).

[14] As per Article *3* of Regulation *N°. 15/2002/CM/UEMOA* on payment systems.

Financial access points concentrated in the south. The highest number of financial access points in CDI are located in Abidjan (FINclusion Lab, 2015). The southern districts benefit from a more developed infrastructure than the rest of the country as well as a larger market in terms of customers; hence most access points are concentrated there. In contrast, the north-western districts of Woroba and Denguele, with much lower population density and little to no access to major roads, are almost devoid of access points. There were over 40,000 registered mobile money agents, over 930 ATMs and 666 commercial bank branches in 2016 (IMF, 2016). Therefore, mobile money agents have the largest reach while the bank penetration is low. In 2015, there were around 250 MFI branches compared to the post office's 125 outlets (FINclusion Lab, 2015). The MFI penetration in CDI is lower compared to other WAEMU countries and MFIs are only allowed to operate as sub-agents of banks in the remittance business.

Good mobile infrastructure, but rural areas behind in terms of electricity access. Mobile, electricity and road infrastructure is necessary to ensure efficient remittance provision across the country:

- **Mobile.** According to Findex (2017), 41% of adults in CDI own a financial account, which is largely driven by mobile money. While only 15% of adults own a bank account, almost 40% of adults own a mobile money account. CDI is mainly a prepaid market and has one of the highest multi-SIM usage rates in the world; subscribers have an average of more than two SIM cards. In 2016, almost a quarter of the population were using the internet via mobile, one of the highest rates in West Africa. The smartphone penetration currently stands at around 27% (GSMA, 2017).
- **Electricity**. 55% of Ivoirians live in urban areas with 95% of them having access to electricity. However, only 38% of the rural inhabitants can access electricity (World Bank, 2016).
- **Roads.** The road network can be generally described as good with many roads undergoing rehabilitation (Atlassian, 2018). In rural areas they can be a challenge (Stakeholder interviews, 2018).

3. Market barriers and enablers

CDI has not yet reached its full remittance market potential. Despite being a regional leader in mobile money adoption, significant gaps remain. When addressed, these could facilitate the flow of considerably more money, especially from outside WAEMU.

This section gives an overview of the market impediments and best practices in CDI. A market impediment or barrier is defined as a factor identified during stakeholder interviews or in the literature to be cost drivers to the remittance business, impeding the access to remittances for consumers or hindering market development. The barriers and best practices were collected through a literature review and various stakeholder interviews with players in the remittance value chain conducted in country in July 2018[15].

The market barriers and enablers are presented through four different lenses: **business case or commercial** factors are those that impact on a provider's ability to offer services at different costs or expand their access points. **Regulatory** implications relate to specific clauses relevant for cost and access of remittances. Remittances need to be set in an adequate environment to be able to be accessed by all – **infrastructure** factors describe the supporting conditions in CDI. **Consumer-related** issues highlight the realities for the consumer on the ground that can act as drivers or barriers for certain providers.

3.1. Business case or commercial

Unique local and regional market conditions have shaped the remittances market in CDI. For instance, in contrast to other SSA countries, stakeholders do not struggle to attract skilled staff into their remittance operations. Stakeholder interviews did however reveal a number of other barriers. These include uncompetitive behaviour, reputational risk, agent management cost, cybercrime, data reliability, excessive forex cost margins and unreliable bank partners. Below, each of these barriers is discussed in turn.

Healthy number of competitors in WAEMU, yet USSD restriction causes unlevel playing field. As discussed in Section 2.1, a large number of RSPs operate in CDI, ensuring relatively competitive remittance prices for consumers within WAEMU. Traditionally, only banks, the post office and selected MFIs were allowed to conduct money transfers in CDI. With the introduction of e-money issuer licences in 2015, the remittance market opened for non-bank players such as MNOs to capture significant market share. Increasingly, MNOs that have e-money subsidiaries dominate, especially domestic money transfers and specific WAEMU corridors. Stakeholder interviews suggest that MNOs are protecting their market by restricting other providers' access to their mobile communication channels. Telecommunications regulation by ARTCI states that MNOs need to open their unstructured supplementary service data (USSD) channels to external service providers, such as banks, MTOs and the post office to ensure network access and the sharing of essential infrastructure, yet this is not enforced. Stakeholder interviews lamented that MNOs give their own subsidiaries preferential access to

[15] It therefore does not account for any changes in the market or regulatory framework after July 2018.

the USSD channels, restricting access to others or charge high rates for access, resulting in anti-competitive business practices.

Costly agent management. Customers still largely prefer to send and receive remittances in cash with very few keeping their funds at financial institutions or in e-wallets. This requires a heavy reliance on agents to facilitate money transfers. The e-money instruction allows agents to open e-money accounts and conduct payment services as well as cash in and out. However, the RSP remains responsible for agent liquidity, supervision, remuneration, the training of agents as well as fraud prevention. The following factors were highlighted during stakeholder interviews as significant cost drivers:

- **Liquidity management.** In rural areas it can be difficult for RSPs to ensure effective liquidity management, especially in regions where the number of agents is low and they cannot rebalance each other easily. Some RSPs deploy super-agents (one in each of the 15 regions) to ensure cash reticulation. Furthermore, a small number of RSPs are increasingly using retailers and petrol stations as liquidity partners; however, this practice is still emerging.

- **Remuneration.** Given high competition in the market, stakeholders reported that money transfer margins are ever-shrinking for providers. Depending on the business model, remunerating agents on a commission-basis proves to be increasingly costly. Some RSPs rely on cross-subsidisation from other income streams. Those without these possibilities need to consistently achieve scale in transactions as commissions are usually set at a flat rate. This implies a lack of room to lower prices for consumers. Agent incentives need to be appropriate to ensure good quality of service, as agents tend to also cover services of the competition. This gives RSPs limited power over how their particular brand is represented. Stakeholder interviews stated that there have been cases where agents advised consumers to use a competitor channel instead as the commission for the agent was higher, telling the consumer that the service is bad. Hence the remuneration of agents does not only carry monetary risks, but also reputational risks.

- **Onboarding and training.** Agent training accounts for a large proportion of RSP operational expenses. Stakeholder interviews revealed that, especially in rural areas, it is hard to find agents. This may, for example, be because many agents only operate out of the cocoa season when they cannot be employed somewhere else. Therefore, churn and training costs are high.

- **Fraud.** Fraud by agents, especially in digital channels, have direct financial consequences for RSPs but also carry a reputational risk where customers are cheated by an agent in a position of trust. Especially older customers are still wary of electronic channels and are easily turned off by incidences of fraud, which then fuel the uptake of informal mechanisms. In order to decrease the incidence of fraud, more supervision is necessary which adds another substantial cost layer for providers.

Cybercrime on the rise through mobile channels, increasing costs of doing business. Many stakeholders mention a steep increase in cases of cybercrime connected to their remittance business. According to the *Direction de l'Informatique et des traces technologiques* (DITT) – an agency set up to fight cybercrime in CDI – crime in the form of money transfer scams increased by over 207% between 2014 and 2015. The incidences are by and large not related to hacking, but offenders use persuasion to target mostly mobile money users that are still unfamiliar with the virtual world to get their account information or to wire money to the offender directly.

The steepest increase can be found in cross-border scams between Burkina Faso, Benin, Cameroon and CDI (ACTUAL-IT, 2016). The rise in cybercrime increases reputational risk and raises security, agent and customer education costs.

Data reliability questionable. Reliable data on remittances is important to support an RSP business case and to secure funding. The Central Bank requires regular reporting from RSPs on their operations. However, the data on remittance flows could be questionable. Stakeholders largely indicate that they do not collect the reasons for sending or receiving money from their customers. In other words, no single dedicated balance of payment (BoP) code exists to estimate personal remittance flows. Therefore, payments that fall outside of the realm of person-to-person payments, such as trade payments, could also be incorporated in the reporting; and flows could therefore be overestimated.

Excessive forex cost margins outside WAEMU increasing informality. The local currency is not allowed to leave the WAEMU unless special permission by the Ministry of Finance is granted. The e-money issuer licence prohibits the dealing of foreign exchange and a partnership with a bank is required by the central bank. According to some stakeholder interviews, this limits the ability of local RSPs to conduct international remittance transfers outside the region, unless they enter expensive partnerships with banks. It strengthens the position of international RSPs that have access to foreign currency due to their global presence. These players are able to charge high foreign exchange margins in the absence of serious competition, which in turn fuels the use of informal mechanisms by consumers.

Smaller RSPs struggling to find partner banks. Given the licensing structure, smaller RSPs in particular require bank partnerships to conduct their remittance business as they cannot access an e-money licence themselves. Smaller, less profitable players struggle to find willing bank partners as they compete on business and their lack of scale in flows is not attractive to banks. Furthermore, when a bank is struggling financially it can have serious implications for RSPs. For instance, stakeholders reported that partnering with a bank that is struggling financially and experiences settlement delays can cause reputational damage, yet it is hard to attract a new banking partner.

3.2. Regulation

In general, the regulatory environment in CDI is conducive to both domestic and cross-border remittances (at least within the region) compared to many other SSA markets. Cross-border remittances in the WEAMU region are incentivised by a harmonised regulatory framework. Where providers in other countries lament the fragmented cross-border regulatory requirements in terms of KYC and licensing, the BCEAO has managed to introduce a harmonised approach to both through the e-money licence. According to stakeholder interviews, a planned mobile money tax was scrapped in early 2018 due to the likely distortionary implications for mobile money and formal financial services uptake. In a time where more countries are considering and adopting such a tax, CDI has therefore set an important precedent. Furthermore, there is no need for consumers to present proof of address, which is uncommon in SSA but a policy very much conducive to financial inclusion. There do, however, remain regulatory gaps, notably conflicting pieces of regulation with regards to KYC, shortcomings in the e-money licensing process, the absence of a biometric legal framework, e-signatures, electronic transactions and the storage of e-copies. These are outlined below.

Regulatory approach inviting yet not fully inclusive. Stakeholder interviews paint a positive picture on the relationship between the industry players and the main regulator, the BCEAO. The central bank is one of the few that allow non-bank institutions to issue e-money and through that has been able to increase the level of financial inclusion in CDI. BCEAO is described as a fairly open regulator, eager to exchange ideas and to stay informed of new developments. However, while the central bank is open to new solutions, the implementation and approval process was reported to be slow during interviews. BCEAO requires providers to present major innovations in products and services before launching to assess compliance and consumer risk. Stakeholder interviews revealed that the attitude towards established players is permissive, allowing them to try out new products with relative ease before intervening. It is allegedly much tougher for new players to present their solutions to the central bank; they can feel disadvantaged and unfairly treated, especially where the regulator has own interests. This is the case in the regional switch, the GIM-UEMOA. BCEAO owns a 53% majority in the switch and all commercial banks are required to connect to the switch. This effectively establishes a monopoly that could be harmful for innovation (AFDB, 2012). There is no formal approach to innovation, for example, in the form of sandboxes or 'test and learn' provisions, but rather a 'wait and see' attitude seems to prevail (Stakeholder interviews, 2018).

E-money issuer licence an important enabler, but restrictions remain. The e-money issuer licence was truly revolutionary at the time it was first issued and opened the market to non-financial actors who would have had to partner with a commercial bank before. With an e-money licence, the actors do not have to ask for permission from the central bank for new product launches each time. However, stakeholders mention that it can be quite restrictive in terms of the services they are allowed to offer. According to some interviews, several MNOs had already established viable remittance corridors, for example with France and Guinea (Conakry), but the central bank forced the corridors to shut down as only banks and international MTOs are allowed to transact outside WAEMU, thereby stifling competition. Savings and credit provision are not covered by the licence either, making conversions from using mobile person-to-person transactions to other mobile financial services trickier. This can discourage further digital financial service adoption by customers. Prudential requirements for MFIs are a lot higher than for banks and can vary from case to case based on the level of risk, making it quite difficult for MFIs to obtain an e-money licence. The current regulatory framework is not conducive to the expansion of rural MFI networks and encashment points. This can disincentivise the development of remittance services in these areas.

KYC requirements for small value transactions not clearly defined. The regulator allows for an array of KYC documentation under the AML/CFT instruction and does not insist on a proof of address, which is conducive to the access of financial services for all. The 2015 e-money instruction, however, permits the issuer to conduct small e-money transactions (up to XOF200,000 – around EUR300 – of e-money per customer, per month) without customer ID, effectively creating a KYC tier proportionate to the risk. But these two instructions are in conflict as the directive on AML/CFT takes precedence over the e-money instruction and does not authorise an ID exception for small transactions (CGAP, 2017). In addition, the telecommunications regulator requires ID for those who wish to obtain SIM cards. This means that those consumers without a form of ID, who could benefit from the ID exception clause of the e-money instruction, would not be able to obtain a SIM card in the first place. Hence, the SIM card registration requirements restrict access to mobile money services. The 2017 Findex survey states that 24% of adults in CDI do not have a financial account due to the lack of required documentation, which in turn incentivises the use of informal channels for those without ID.

E-signatures and KYC e-storage not implemented, adding to operational costs. There are regulatory provisions in CDI that technically allow fully digitised transactions, including e-signatures. In practice, however, there is no digital biometric system in place and the central bank does not accept conventional digital signatures but rather requires that these be in the form of crypto signatures[16]. An e-signature cannot be accepted unless it is secured by a qualified e-certificate delivered by ARTCI or an approved provider. On top of this requirement, stakeholders report that the regulator in fact still insists on paper copies with physical signatures. This, complicates the account opening process for the consumer, negatively affecting formal money transfers. RSPs are furthermore required to store physical documentation copies for between five and ten years, which increases storage costs and is not more secure than storing digital copies (Laserfiche, 2013). One RSP mentioned during interviews that a recent fire had wiped out large portions of their storage facility. The need to keep physical copies also adds unnecessary work for agents and can discourage consumers who have to wait unnecessarily long at an agent outlet for the onboarding process to be completed.

3.3. Infrastructure

The remittance-supporting infrastructure is fairly advanced in CDI. As outlined in Section 2.3, road and mobile network infrastructure do not seem to be as much of a challenge as in other SSA markets, according to stakeholder interviews. The regional payment infrastructure is also set up much more sustainably than a national payment system for CDI alone. This regional approach provides valuable lessons for other SSA markets. Yet, a few national and payments system infrastructure-related barriers persist: electricity and internet access remain challenging. The switch is still limited to banks and the lack of interoperability considerably increases operational costs for providers. The absence of a functioning national ID database causes each provider to create their own database. Furthermore, stakeholder interviews suggest the lack of bank branches in rural areas impacts the rural expansion of remittance services. These issues are discussed in more detail below.

RSP interoperability limited but growing. The central bank is an active advocate for channel interoperability. ATMs are nearly all interoperable while POS devices are still on the way. Under the WAEMU instruction, e-money issuers must ensure that they take the necessary technical and operational steps to facilitate interoperability with other payments systems. There is a big push on interoperability via the regional switch, GIM-UEMOA. However, at this stage interoperability between MTOs, MNOs and mobile money operators (MMOs) has yet to be established. This lack of interoperability can contribute to increased operational costs for providers and consumers. Instead of channel operability, many closed loop systems are at play, for example at MNO group level and at banking level. To date, MNOs have put into place a large number of cross-country agreements. However, these agreements are driven by bilateral links rather than through interoperable systems. Only full integration can achieve the maximum cost savings.

Lack of retail EFT system increases cost and risk. The lack of a retail EFT system to process low-value, high-volume remittance flows has the potential to increase the cost for providers and consumers given that these payments are processed through the expensive RTGS system. In the absence of a real-time EFT system, flows are partially handled by the RTGS or in batches through the mobile, card or cheque channels. A real-time EFT system has the potential to be much more efficient as it can replace the costly cheque system and can be run at low cost for

[16] Cryptographic digital signatures (crypto signatures) use public key algorithms to provide data integrity. When you sign data with a digital signature, someone else can verify the signature and can prove that the data originated from you and was not altered after you signed it (Coinmonks, 2018).

all channels if set up ubiquitously. This is because it minimises the payment, clearing and settlement risk given its real-time functionality.

Lack of access to national ID database reinforces exclusion. The CDI government and the National Office for Identification are in the process of setting up a national ID database and have been pushing the roll-out of IDs. In the meantime, each provider is relying on its own database, which increases operational costs. There is also currently no legal framework upon which interoperable biometrics and national digital identity can be built and no providers interviewed are currently aware about progress towards digital identity and interoperable biometrics.

Cost of switch might be prohibitive for non-bank RSPs. While work is underway to connect MFIs to the GIM-UEMOA regional switch, currently only banks switch there. The cost of a GIM-UEMOA membership is a potential concern for RSPs and MFIs, particularly where there is limited card usage by their customer bases. Settlement is not done in real time and can take up to three days, increasing reputational and operational risks for providers.

Limited rural bank branch penetration affects outreach. For those RSPs partnering with a bank, outreach into rural areas is limited given that the branch penetration is only sufficient in urban centres. Rural areas are underserved by formal RSPs. This causes difficulties in cash reticulation in that not only are customers unable to access their funds at an ATM or bank branch without travelling far distances, but agents cannot easily rebalance their cash reserves and floating accounts. This could disincentivise merchants from becoming agents if it means having to close their shop in order to rebalance at the next available access point. To overcome cash reticulation challenges, RSPs are increasingly seeking collaboration with retailers and petrol stations to act as cash-in and cash-out partners.

Electricity and internet in rural areas challenging for RSPs. The patchy electricity and internet supply in the northern and western regions, as discussed in Section 2.3, causes operational challenges for providers who have to invest in solar solutions to power their ATM and POS fleet.

3.4. Consumer-related factors

Consumer-related factors in CDI mainly relate to the slow uptake of digital remittances compared to MTO-based services. In the absence of a fully digitised ecosystem for mobile payments, cash will remain king and over-the-counter services will be preferred. Stakeholder interviews indicate that the lack of trust in the formal financial system is exacerbated by long waiting times to obtain national IDs, as well as cybercrime, agent fraud and a sense of 'feeling out of place' by consumers. Each of these issues is discussed in turn below.

Long ID waiting times discourage formal use. The government has been driving the roll-out of IDs to all citizens in recent years. While progress has been made, there is still a large proportion of the population without a form of ID, as mentioned in Section 3.2. Stakeholder interviews revealed that consumers have to wait for six months or longer to get their new ID, which encourages the uptake of informal mechanisms and decreases trust in formal institutions.

Lack of digital use cases reinforces customer cash preference. Consumers' preference for cash remittances is exacerbated by a lack of digital use cases. In the absence of digital government-to-person transfers, remittances are often the first point of exposure to a digital financial service for many consumers. If the central bank and providers want to encourage consumers to keep their received values in digital wallets and accounts, they need to be able to meet

consumer needs just as well as cash can (Bester et al., 2016). However, this is currently not the case in CDI. Digital means of payment is becoming more pervasive for paying bills or school fees, but bank card adoption is low in CDI, making cash the only viable option for most rural customers. There is a limit on how much consumers are allowed to keep in their mobile wallets and they can earn no interest. Furthermore, especially in rural areas, mobile money cannot be used to pay for most items. Until the payment value chain is fully digitised, providers have to make costly provisions for cash handling.

Trust in e-services still emerging. Several stakeholders mention that while mobile adoption has been excellent, trust in mobile financial services is still in its early stages and fragile. Consumers in rural areas need in-depth technical education and literacy training to comprehend the newer remittance solutions. The rise in cybercrime and agent fraud damages digital RSPs' reputation and plays into the hands of dominant, more expensive MTOs. It was mentioned during the interviews that there are insufficient customer recourse mechanisms, especially in the case of mobile money transfers. Wrongfully sent funds, for example through using the wrong phone number, can only be recovered if they have not yet been cashed out. This creates distrust. Furthermore, it was reported during interviews that many poorer customers feel out of place in banks.

Absence of local languages discourages use. CDI has over 70 languages, yet most formal remittances services operate in French. For example, USSD channels are usually only accessible in French. Agents hence play an important role in explaining mobile money to customers in their local language. In order to bypass agents and discourage the use informal mechanisms in places where agents are not in operation, RSPs need to find a way to make digital services available for those who do not have the necessary French language skills. Stakeholders expressed a drive to offer their services in more than one language.

4. Conclusion and recommendations

Côte d'Ivoire is an important remittance market in West Africa, being a home to many migrants from the region. CDI is a net sender of remittances, sending roughly USD650 million annually to other countries, mostly within West Africa. The harmonised regulatory framework of the WAEMU and the common currency enable a cheaper and more efficient flow of remittances when compared to other SSA regions. Mobile money has made significant progress in uptake over a short period. Yet, the value of informal flows is still high, impacting the business case of formal providers, especially in rural areas. In addition, costs to send and receive remittances from outside the region are still above the SDG target.

A number of business challenges exist in CDI related to the business case, regulation, infrastructure and consumer that drive cost and informality. The most prominent include, not are not limited to, the inefficient setup of foreign exchange regulation, an underdeveloped digital payment ecosystem, disproportional KYC requirements, lack of access to the national ID database, uncompetitive behaviour by MNOs, the lack of a real-time EFT system and the lack of systematic data collection on remittances alone to size the true market.

In order to increase the sustainability of the remittance sector and increase the access for the rural population in the country, the following actions could be considered:

- **Enforce interoperability to reduce costs and increase convenience.**

  i. System interoperability prescribed by the BCEAO has not been enforced to a meaningful extent: MNOs, MTOs and banks still mostly operate with bilateral agreements and inner-group interoperability. Most POS devices are not interoperable. The regulator could consider ways to close this gap to increase certainty and competition in the market.
  ii. Any anti-competitive behaviour should ideally be investigated and addressed by the regulator, e.g. MNOs that block other players' access to USSD channels. This will increase convenience for consumers and encourage more formal remittance flows.
  iii. In order to capture the benefits of scale through network effects, remittance players should ideally get effective access to the regional switch to raise the overall profitability of the industry.
  iv. The establishment of a real-time retail EFT system for the region would be ideal to support the creation of a ubiquitous platform for all channels (mobile, card, cheque etc.). This platform would be the cheapest option for all players and would not require onerous system integration between providers. No expensive RTGS fees arise. At the very least an EFT system should be put in place in the absence of real-time functionality to increase efficiencies and to put the necessary ecosystem in place for digital payments such as government-to-person and bill payments.
  v. It would be beneficial for technical service providers to prioritise developing biometrics solutions, backed by an interoperable biometric legal framework. This mechanism would be ideal to support a broader range of consumers through accessibility by all supervised institutions. In conjunction, the national ID database should be made accessible to all supervised institutions.

- **Encourage innovation and regional market development.**

    i. The regulator could consider an inclusive approach to regulating for innovation, granting process access to all players and not just the ones with an e-money licence. The e-money licence, for example, could be amended to allow the intermediation of funds with appropriate safeguards in place to incentivise formal savings and the take-up of credit to promote financial inclusion and further stimulate economic growth.

    ii. Compliance with official data reporting, such as balance of payments reporting, would ideally be enforced to establish more trust in internationally-comparable figures to attract investment in the sector. Development partners could assist with data quality initiatives.

    iii. The foreign exchange system favours a few market actors which opens the possibility for arbitrage and exploitation. This remittance barrier crosses many government departments and entities. The development of a foreign exchange regulatory framework that acknowledges the need to remit whilst increasing the monitoring and risk mitigation mechanisms could drive more formal flows.

- **Expand digital ecosystem to lift cash and operational burden.**

    i. The amount of mobile money users is still falling short of its potential. In order to increase consumer trust in digital value and therefore to reduce the preference for cash in favour of digital means, the regulator, private sector players and development partners could develop a more integrated approach to digital expansion. This includes value chain digitisation, not just at the merchant but also at the wholesaler front to cause a ripple effect in digital payment uptake.

    ii. Electricity expansion should be driven to enable both consumers and agents to power devices, enable real-time transfers in rural areas and stabilise the ecosystem. A robust framework for offline digital transactions would be beneficial.

    iii. E-signatures should be accepted on the same basis as paper signatures without insisting on the highest level of encryption and scrutiny to ease the consumer onboarding process. Biometric verification could achieve the same level of security without creating as much operational cost. Similarly, the insistence on paper storage of official documentation should be reconsidered.

    iv. Not requiring proof of address is a step in the right direction but ID requirements should be proportional to the consumer risk. Disproportionally onerous requirements on lower-income consumers should be actively discouraged by the regulator. Auditors ideally would need to be brought into the risk-based approach when doing institutional audits on customer due diligence.

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The Centre for Financial Regulation & Inclusion (Cenfri) is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

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FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.