I.A.2. Project Objectives:
The global objective of the project is to improve the efficiency and security of payments in the Central African Economic and Monetary Union (CAEMU). Detailed objectives are:

- To increase payment safety and security,
- To increase the supply of banking services to the population,
- To develop modern electronic payment instruments,
- To develop the inter-bank financial market,
- To reduce bank operating costs and client fees,
- To reduce the time required for clearing and settlement,
- To reduce the use of cash,
- To comply with international standards,
- To improve the legal and regulatory framework in order to restore client confidence in banks and payment instruments.

By supporting the implementation of a state-of-the-art payment system for the entire CAEMU area, the project would contribute to the development of non-cash transactions, the reinforcement of banks, the development of microfinance institutions, the deepening of the financial sector, and, more generally, the expansion of trade and investment in member countries.

The above measures will have primarily an indirect impact on poverty, by improving access to the banking system and strengthening microfinance intermediation. The project will also include a pilot scheme based on electronic money and pre-paid smart cards to address the needs of the poor population that currently has no access to banking services. The objective of this component will be, in particular, to determine the conditions required to successfully automate the payment of electricity provided to the poor. It is expected that this approach will enable electricity providers (and potentially other utility service providers) to expand their customer base to the poor in a safe, low cost, and reliable manner.

I.A.3. Project Description:
At this stage, the description presented below reflects the directions in which the preparation process is engaged. At the end of this process (expected in fall 2001) a revised and more accurate description would be
presented in the PAD.

The project includes seven components:

- a project management support component: this is a key condition for success due to the complexity and timeframe of such a project, which require a professional project management approach;
- a real time settlement system in order to provide timely settlement of large value transactions related to the inter-bank and securities markets. This system would also enable the settlement of net low value clearing and settlement systems in a timely and secure manner,
- a low value electronic clearing and settlement system, to reduce the time and cost of retail banking payments and restore customers’ confidence in banks and basic banking services,
- an inter-bank card system, to develop electronic transactions on a regional basis and reduce the use of costly and unsecured cash and paper-based payment instruments;
- a pilot scheme for e-money to enable the supply of electricity to the poor in a safe and reliable financial environment;
- a common telecommunication and computer infrastructure, and,
- a risk management system for securing payment transactions in order to better manage customer credit and fraud.

i) The project support component includes project management and monitoring, procurement, base line surveys that will enable the project management unit to measure the base-line situation and the evolution of performance indicators during and after project implementation.

Other activities in this component would include the improvement of the legal framework, identification of requirements to upgrade BEAC and commercial banks' information and computer systems, and training.

International and local consultants will be hired to assist the project team in managing and implementing the above-mentioned actions.

ii) The large value settlement component includes the establishment of a Real Time Gross Settlement (RTGS) system at the regional level. This system will process large or urgent transactions sent individually by head offices of commercial banks and other participating financial institutions. The objective of this system is to settle transactions within a few minutes under normal conditions. Liquidity and risk management features will be included in the system’s functionality in order to comply with international standards.

The RTGS system would be open to banks and other financial institutions through three different access modes: i) a direct participant would manage its own account at BEAC and have direct technical (on line) access to the RTGS; ii) an indirect participant would have a settlement account managed by BEAC, but would use a direct participant’s platform or that of a service provider to access the RTGS; iii) in the third mode, the financial institution would be represented by a direct participant and would have no settlement account in BEAC’s books. The direct participant providing the service would be financially responsible for all transactions made on behalf of that institution.
The RTGS system would process and settle transfers in CFA francs among participants or with the Central Bank, and the bilateral or multilateral balances resulting from the clearing of low value transactions in netting systems. It would also settle the payment leg of securities transactions (processed by BEAC or other government securities clearing and settlement systems). The settlement of the payment leg of securities traded on the Regional Stock Market if and when implemented could also be made through the RTGS. FCFA cover and transfers related to international transactions would be processed through this system as well.

Volume of transactions to be processed in the RTGS system will be estimated during project preparation. Credit orders would represent the major share of transactions.

iii) The objective of the low value clearing and settlement component is to significantly improve the clearing and settlement of low value transactions (e.g. checks, letters of exchange, credit orders, direct debit, card transactions). To avoid the drawbacks associated with the clearing of paper instruments, and lengthy transportation delays, a new scheme is currently under study: the use of MICR or OCR techniques (magnetic or optical characters are printed at the bottom of the paper instrument) would enable the automation of exchange and clearing of instruments in an automated national clearinghouse. Furthermore, it is envisaged that scanning of the paper instrument would enable an electronic transmission that would permit the payor’s bank to swiftly control the full validity of the instrument and accelerate the credit to end customer accounts.

Electronic access to a national clearinghouse system would be provided at the local level through BEAC’s offices and network, if internal commercial banknetworks are not operational. This scheme would allow any bank to submit all its payment instruments to the nearest access point, whatever the location of the other bank branch involved in the transaction. For archiving purposes, paper transactions, including "outstation transactions", would be exchanged in parallel by using, for example, the facilities of the former clearing houses (e.g. BEAC offices).

Rejection of payments through the electronic clearing house system would be permitted within an agreed number of days, depending on the type of transaction and complexity of control.

In this scheme, interbank clearing and settlement would be done on the basis of electronic files and the legal framework would need to be adapted to support the validity of electronic data and digital signature. Initially, settlements would be made on a semi-manual basis at the end of each clearing and settlement cycle through the posting of net balances into a single settlement account of each participating bank held at each BEAC national office. When the large value clearing and settlement system (RTGS) is in place, settlement of multilateral balances would be processed automatically.

The volume of transactions to be processed in the low value clearing and settlement system will be estimated during project preparation.

iv) The objective of the card component is to coordinate and strengthen
commercial bank initiatives in card activity through the development of an inter-bank card scheme at the sub-regional level. The banking community would develop a common card logo and brand name, enabling bank customers to use any card accepted in the scheme in any Automated Teller Machine (ATM) or merchant’s equipment (Point Of Sale - POS).

This new line of products would be designed to be consistent with commercial banks' strategies and client needs at the local, national, sub-regional and international levels.

It is expected that this inter-bank approach will enable a very rapid development of this instrument in the whole sub-region and a decrease in cash transactions. In the future, some arrangement could be agreed upon with West Africa, for instance to have the central and West African cards accepted throughout the whole African French Franc Zone.

This component would include the design and progressive implementation of a new regulatory framework: contractual arrangements between banks and their clients, minimum requirements for inter-bank services and standards, common risk management rules and procedures, loss sharing agreement in case of fraud, and establishment of a common legal entity in charge of regulating the system and maintaining relations with international bank card networks like VISA and MASTERCARD on behalf of commercial banks.

The common entity would be in charge of coordinating technical standards and quality and security of operations, including the use and certification of existing facilities offered by banks or by service providers with the objective of decreasing costs, sharing investments, and increasing reliability and security of the entire system.

Volume of transactions to be processed in the card system will be estimated during project preparation.

v) A "financing of the poor" component would include the implementation of a pilot scheme to test the technical, economic and social feasibility of using "e-money" systems, such as pre-paid smart cards, for small payments to be made by households that currently have no access to banking services, in particular the poor. The pilot would initially focus on the automatic and pre-payment of utility services like electricity and water supply.

Some pilot experiences have already been implemented for a one or two year test period in several countries of the sub-region. However, given the significant up-front investment required and the social implications, a more coordinated approach involving all stakeholders concerned (NGOs, local authorities, electricity provider, banks, etc.) would be conducted during the preparatory phase in order to design the pilot scheme.

This component would develop on a wider scale existing schemes in which electricity and water supply companies are offering their services to the poor. This is done on the basis of pre-paid e-money cards. In such a scheme, a smart card (similar to telephone prepaid cards) is bought by the customer from the utility service provider (or from a bank), and the amount of money paid to the provider or the bank is registered in the memory of the card. In the household, equipment is installed that allow
electricity to be supplied as long as some "money" remains in the memory of the card. Automatically, the amount corresponding to consumption is "debited" in the card. When no more money is available, supply is stopped and the user has to go to a bank or another supplier to reload the card. For utility companies, this solution represents a way to deliver their services with a significant reduction in the cost of connection (or de-connection), of collection of information on usage, and of payments.

This specific use of smart cards should enable the development of this technique in other fields such as health services, transport, welfare payments, where payment, collection, and controls are inefficient and fraud very high.

vi) The telecommunication infrastructure component is key in improving the efficiency of the systems described above and reducing operating costs.

A few satellite and land telecommunication networks have been put in place by BEAC and commercial banks, however coverage is still incomplete and does not fully respond to the needs of the financial sector, and investment and operating costs are high. A common approach by the whole financial community should speed up the provision of telecommunication infrastructure, improve dialogue with the telecommunication operators in the region, and sizably reduce the cost of electronic transfers for inter-bank and intra-bank transactions.

The telecommunication infrastructure component will include local, national and regional networks that have to be built or strengthened and secured for all clearing and settlement operations (large value and low value transactions, card authorizations and cash withdrawals, exchange of data--reports, files, internet banking-- etc.).

vii) The risk management component objectives are to secure payment transactions, manage customer credit, and mitigate fraud or abuse. It is a key element for reducing fraud, claims and disputes and providing confidence to banks and their customers.

Different approaches /systems have been put in place in developed and developing countries with varying results. The objective is to design and implement a system that will result in rapid improvements for banks and their customers, and that will include risk management for all kinds of instruments.

A detailed design, taking into account the specific requirements of stakeholders in the region, and based on a progressive and pragmatic approach, will be available at the end of the preparation phase of the project.

A revised estimate will be provided at the end of preparation phase.

Components:

Project management support
(including training)
I.A.4. Project Location: (Geographic location, information about the key environmental and social characteristics of the area and population likely to be affected, and proximity to any protected areas, or sites or critical natural habitats, or any other culturally or socially sensitive areas.)

B. Check Environmental Classification:  C (Not Required)
Comments: no environmental impact
C. Safeguard Policies Triggered
Policy Applicability
Environmental Assessment (OP/BP/GP 4.01) No
Forestry (OP/GP 4.36) No
Natural Habitats (OP/BP 4.04) No
Safety of Dams (OP/BP 4.37) No
Pest Management (OP 4.09) No
Involuntary Resettlement (OP/BP 4.12) No
Indigenous Peoples (OD 4.20) No
Cultural Property (OP 4.11) No
Projects in Disputed Territories (OP/BP/GP 7.60)* No
Projects in International Waterways (OP/BP/GP 7.50) No
*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties’ claims on the disputed areas

Section II - Key Safeguard Issues and Their Management
D. Summary of Key Safeguard Issues. Please fill in all relevant questions. If information is not available, describe steps to be taken to obtain necessary data.

II.D.1a. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts.
no safeguards issues

II.D.1b. Describe any potential cumulative impacts due to application of more than one safeguard policy or due to multiple project component.

II.D.1c Describe any potential long term impacts due to anticipated future activities in the project area.
II.D.2. In light of 1, describe the proposed treatment of alternatives (if required)

II.D.3. Describe arrangement for the borrower to address safeguard issues

II.D.4. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The project will be developed in close consultation with major stakeholders. As indicated earlier the design of the project will be made at three regional workshop bringing together all stakeholders.

The Steering Committee and Consultative Committees established in each country will meet regularly to review progress and proposals made by workshops and consultants and reach agreement on key aspects of the project.

Information will be distributed regularly to senior management of all banks and major companies in order to be sure that a large consensus will be reached at the end of the preparatory phase regarding the content, implementation plan and project budget.

These Committees are composed of major stakeholders and would later monitor project implementation.

E. Safeguards Classification. Category is determined by the highest impact in any policy. Or on basis of cumulative impacts from multiple safeguards. Whenever an individual safeguard policy is triggered the provisions of that policy apply.

[X] S1. - Significant, cumulative and/or irreversible impacts; or significant technical and institutional risks in management of one or more safeguard areas

[ ] S2. - One or more safeguard policies are triggered, but effects are limited in their impact and are technically and institutionally manageable

[S3. - No safeguard issues

[ ] SF. - Financial intermediary projects, social development funds, community driven development or similar projects which require a safeguard framework or programmatic approach to address safeguard issues.

F. Disclosure Requirements Environmental Assessment/Analysis/Management

Plan: Expected Actual
Date of receipt by the Bank Not Applicable Not Applicable
Date of "in-country" disclosure Not Applicable Not Applicable
Date of submission to InfoShop Not Applicable Not Applicable
Date of distributing the Exec. Summary of the EA to the ED
(For category A projects) Not Applicable Not Applicable
Resettlement Action Plan/Framework: Expected Actual
Date of receipt by the Bank Not Applicable Not Applicable
Date of "in-country" disclosure Not Applicable Not Applicable
Date of submission to InfoShop  Not Applicable  Not Applicable
Indigenous Peoples Development Plan/Framework:  Expected  Actual
Date of receipt by the Bank  Not Applicable  Not Applicable
Date of "in-country" disclosure  Not Applicable  Not Applicable
Date of submission to InfoShop  Not Applicable  Not Applicable
Pest Management Plan:  Expected  Actual
Date of receipt by the Bank  Not Applicable  Not Applicable
Date of "in-country" disclosure  Not Applicable  Not Applicable
Date of submission to InfoShop  Not Applicable  Not Applicable
Dam Safety Management Plan:  Expected  Actual
Date of receipt by the Bank  Not Applicable  Not Applicable
Date of "in-country" disclosure  Not Applicable  Not Applicable
Date of submission to InfoShop  Not Applicable  Not Applicable

If in-country disclosure of any of the above documents is not expected, please explain why.

Signed and submitted by  Name  Date
Task Team Leader:  Andre Ryba  02/13/2002
Project Safeguards Specialists 1:
Project Safeguards Specialists 2:
Project Safeguards Specialists 3:
Approved by:  Name  Date
Regional Safeguards Coordinator:  Serigne Omar Fye  02/14/2002
Sector Manager/Director:  Gerard Byam  02/14/02

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