



WEST AFRICAN MONETARY AGENCY (WAMA)
Financial Integration Department (FID)

AIDE-MEMOIRE

**VIRTUAL WORKSHOP HELD BY WAMA IN COLLABORATION WITH THE ECB,
ECOWAS COMMISSION AND MEMBER CENTRAL BANKS ON THE
IMPLEMENTATION OF THE ECOWAS PAYMENT AND SETTLEMENT SYSTEM:
LESSONS FROM THE EUROPEAN PAYMENT AND SETTLEMENT SYSTEM
EXPERIENCE**

October 28, 2021

I. INTRODUCTION

The Financial Integration Department of the West African Monetary Agency (WAMA) in collaboration with the European Central Bank (ECB), the ECOWAS Commission and Member Central Banks, organized a one-day virtual workshop on 28 October, 2021 on the theme “Implementation of the ECOWAS Payment and Settlement System (EPSS) Project and the Lessons that Could be Drawn from the ECB Experience”.

The objective of the workshop was to share with key players in the EPSS project the experience of the ECB in developing, establishing, and operating cross-border payments and settlement systems in order to draw key lessons for the effective implementation of the EPSS Project. The workshop was attended by 53 participants from the ECB, WAMA, ECOWAS Commission, Member Central Banks (specifically representatives on the Technology and Rules/Operations Committees), as well as the EPSS consultant who did the Feasibility Study and the Project Document. The list of participants is attached herewith.

II. OPENING SESSION

The opening ceremony was graced by the opening remarks by the Director General of WAMA, representatives of the ECOWAS Commission and the ECB, all of whom emphasized the need for a continued collaboration with the ECB and indeed with all the stakeholders to effectively deliver an efficient, integrated payments and settlement system to the Community.

In his opening statements, the Director General of WAMA, Mr. Momodou Bamba Saho, welcomed participants and highlighted that the regional payments systems landscape remained heterogeneous, which adversely affects inter-regional trade and cross-border payments among economic operators, both in terms of delays in the execution of operations as well as in terms of transaction costs. Mr. Saho opined that these financial transactions were largely dependent on the agreements with correspondent banks in third countries. He further asserted that the EPSS project was launched to promote the integration of payment systems at the national and zonal levels, with the ultimate goal of establishing a cross-border payment system and an environment favourable to trade among ECOWAS member states. The project, Mr. Saho continued is a key component of the recently adopted ECOWAS Roadmap for the Launch of the Eco (2021-2027), and involved the setting up of a regional real-time gross settlement (RTGS), a regional clearing house (RCH) and a regional switch which will facilitate the inter-connectivity of national payment systems.

Mr. Saho recalled that the draft legal and regulatory framework was validated by the Committee of Experts and recently endorsed by the Committee of Governors of ECOWAS Central Banks which recommended its approval by the Council of Ministers and by the Authority of ECOWAS Heads of States and Governments. The workshop, according to the Director General of WAMA, would therefore offer the opportunity for participants to exchange views with the Experts and Managers of Payment Systems at the ECB, in order to learn about technical and technological developments, changes in legal and operational frameworks, security standards and regulations as well as on the challenges in the context of the implementation of the payment system project in the Euro Zone. He opined that the engagement would indeed be beneficial to the ECOWAS environment as Member States of the Community moved towards the

establishment of the ECOWAS single currency which also necessitates the establishment of an ECOWAS-wide (integrated and interoperable) payments and settlement system. Mr. Saho concluded that efficient and integrated payments and settlement systems would also enhance the transmission mechanism of the single monetary policy being anticipated under the Central Bank of West Africa (CBWA).

In his welcome remarks on behalf of the ECOWAS Commission, Mr. Peter Oluonye (Principal Program Officer, Industry and Private Sector Promotion) stressed the importance of the EPSS project towards facilitating inter-regional and intra-regional trade and investment, by easing the difficulties associated with movement of capital across the borders, reducing the time and costs incidental to payments delivery and settlement of transactions within the region. He further expressed that the EPSS project was conceived to address the challenges of payments and settlement for cross-border trade in the context of the multi-currency environment, pending the adoption of an ECOWAS single currency in 2027. He noted that the peculiarities of the Community have informed the choice of a semi-centralised model for the proposed EPSS, with interoperability of existing national payments systems, in order to facilitate multilateral settlement and payments in domestic currencies and net positions to be settled in either euro or US dollar. The system has the further advantage of facilitating financial integration, financial inclusion and formalization of informal cross-border trade in a harmonized regulatory environment.

Mr. Oluonye explained that the implementation of a cross-border payments mechanism for the region and harmonization of the payment regulations to facilitate trade and financial integration is a mandate given by Article 51 of the Revised ECOWAS Treaty of 1993. He noted that the critical stakeholders had been consulted at every stage of the project cycle, including the feasibility study and business plan stages. He noted that the harmonised legal and operational frameworks of the EPSS had recently been approved by the Committee of Governors of ECOWAS Central Banks and the relevant texts would be submitted to the Ministerial Committee for approval at its next meeting. The *“ECOWAS Payments and Settlement Systems (EPSS) Legal and Regulatory Framework”*, when approved and adopted by the Authority of Heads of State and Government, would create the environment for the operation of the EPSS, and ensure the success of cross-border payments across the ECOWAS region.

Mr. Oluonye therefore urged all participants to be determined to use this experience sharing opportunity with the ECB to upscale the corporate capacity and engage the team on the technical, technological, and operational, regulatory and risk management dimensions of the project, to deepen the understanding and lay the foundations for effective roll out of the project. He concluded his remarks by wishing participants fruitful deliberations.

III. SUMMARY OF PRESENTATIONS, DISCUSSIONS AND LESSONS LEARNED

3.1 Implementation of the ECOWAS Payment and Settlement System (EPSS) project: Progress, challenges and prospects

This presentation made by Mr. Aliou O. Ceesay, Chief Economist, dwelled on key components of the project's feasibility study drawn up in 2013 and highlighted the preparation and adoption of regulations governing payment systems within ECOWAS and the market operational rules which were recently approved by the Committee of Governors. He recalled that these documents had been submitted to the Ministerial Council and Authority of ECOWAS Heads of State and Government. He also touched on ongoing activities regarding the development and implementation of an interconnection scheme of already existing payment systems, steps of interconnection of payment and settlement system infrastructures, and the economic, financial, statistical and financial stability impacts of the EPSS project as well as on the outlook.

Mr. Ceesay indicated that the following committees had been set up as part of efforts to speed up implementation of the EPSS:

- a) The Technology Committee; and
- b) The Rules/Operations Committee.

He also recalled that the consultants recommended the establishment of a semi-centralized Regional Payments and Settlements System called ECOREPSS (ECOWAS Regional Payments and Settlements System), comprising:

- Regional Real-Time Gross Settlement (RTGS) System;
- Regional Clearing House (RCH) System; and
- Regional Switch that will facilitate the inter-connectivity of national payment systems.

The presentation highlighted the EPSS implementation Roadmap as follows:

- Submission of policies and regulations to the Council of Ministers and the Authority of Heads of State for approval (November/December 2021);
- Request for proposals (RFPs) for technology suppliers and choice of a technological solution (Q1 22-Q3 22);
- Establishment of the EPSS control/Monitoring mechanism (establishment of regional and national committees for the supervision and control of EPSS payments) (Q2 22-Q3 22);
- Deployment of the Regional Payment and Settlement System (Q4 22);
- Capacity building of actors in each of the jurisdictions (Q1 23).

The Member Central Banks were therefore urged to:

- Involve the solution providers who have implemented the said infrastructures of the payment and settlement systems of the respective Member States/zones with a view to providing support;
- Provide the necessary support for the implementation of an effective communication strategy/program for the EPSS Project.

Following the presentation, the discussion centred on the linkage between the EPSS Project and the PAPSS. It should be recalled that PAPSS is designed to ultimately serve as Africa's Central Switch to spur the growth of intra-African trade and commerce, with the active participation of central banks, financial institutions, regional economic communities, the private sector, and end users, in order to support the financial integration of the continent and by extension enhance economic growth.

Concern was raised as to whether there would be any duplication of infrastructure and/or roles, occasioned by the implementation of the two projects particularly with regard to issues of interoperability. In his response, Mr. Ceesay indicated that the two projects were complementary and that the objective was to use the Regional Economic Communities (RECs) as foundation for the Pan African Agenda which is for 54 African countries, as explained in the PAPSS Secretariat Press release on 28 September 2021 on the AFREXIMBANK website during the operational roll-out of the PAPSS.

The main lessons to be learned from this presentation were as follows:

- 1) Technical readiness: assess required adaptation of IT infrastructure (software and hardware), update interface, implement ISO20022 for messaging, set-up connectivity, and perform internal testing.
- 2) Operational and organisational readiness: assess business impact, align business processes, define operational procedures, prepare legal arrangements, procure network service provider, train staff for testing, migration and operations, perform connectivity and user testing and prepare for and participate to migration rehearsals.

3.2 - Payments and market infrastructures in the European Union before and after the creation of the ECB and the introduction of the euro

This presentation by Mr. Sylvain Debeaumont highlighted the political context within which TARGET 1 emerged, the guiding principles that were adopted, the general principles agreed upon, the approach adopted for Target 1, the main project milestones (preliminary phase, specification phase, development phase, testing and simulation phase). As part of the implementation of the TARGET 1 project, it was considered necessary to establish interconnectivity of domestic and cross-border transactions and then proceed to minimum harmonisation of regulations, based on which the TARGET 1 became a success story.

On the issue of migration to a new generation TARGET, Mr. Debeaumont highlighted some of the major weaknesses with TARGET 1, the major changes that came with TARGET 2, key phases in the TARGET 2 project (market consolidation, specification and development, tests, migration).

Some of the major weaknesses of the TARGET 1 project included:

- Complex technical solutions which led to regular incidents;
- High maintenance costs and adaptability problems, cost recovery objectives not met;
- Request from the users for a much higher degree of harmonization in terms of services and pricing;
- Challenges of coping with the EU enlargement, and credibility of the Euro system.

The main changes brought in with TARGET 2 included:

- Full technical consolidation on a single shared platform (SSP) provided by three central banks;
- Same core services for all participants provided at the same price under the cross-border recovery principle;
- Harmonized technical interface for participants (SWIFT based);
- Enhanced robustness and resilience;
- Business and legal relationship with users remained with the NCBs; and
- Individual central banks are associated to all decisions on the basis of the one country/one vote principle.

3.3 - RTGS and developments in payment and settlement systems in the EU

The objective of TARGET 2-T2S Consolidation included the improved efficiency, optimized liquidity management, easier access to all services via a harmonized interface, enhancement of RTGS service, aligned use of messaging standards (ISO20022), reduced operational costs, and increased cyber resilience.

TARGET 2 covered a silo approach (securities settlement, high-value payments, instant payments), modular approach (central liquidity management), shared reference data, share billing, euro system single market infrastructure gateway.

In summary, ISO20022 implementation included multi-currency RTGS services (no conversion), multi-network services providers (ESMIG), longer operating hours and enhanced data analytics.

The key success factors were technical, business and operational readiness, which were underpinned by internal and community coordination and commitment of project funding as well as management awareness of risk management.

Main lessons learned from ECB's presentation on TARGET 1 and TARGET 2 experiences:

- A cross-border payment system is rarely an objective in itself but a means to serve a broader political/economical roadmap;
- A payment system integration project should benefit from the strong support of all stakeholders (e.g. political authorities, central banks, regulators, banks);
- Realistic timetable also taking into account the level of preparation of various stakeholders;

- Readiness to harmonize beyond the technical aspects (e.g., Legal framework, operational procedures of business practices) and thinking beyond the national context;
- Necessity to rely on a clear and strong governance structure.

IV. CLOSING SESSION

In his closing remarks, the Director General of WAMA, Mr. Momodou Bamba Saho, thanked the ECB officials for making time to share their experience with experts from Member Central Banks as well as key stakeholders. He registered his appreciation to all the stakeholders and expressed hope that this mutually beneficial engagement will be enhanced as we move towards the implementation phase of the EPSS Project.

The representative of the ECOWAS Commission, Mr. Peter Oluonye, thanked the participants for their valuable contributions as well as the ECB and WAMA for collaboration and reiterated the commitment of the ECOWAS Commission towards the speedy implementation of the EPSS project.

The representative of the ECB, Mrs Tiziana Trefiletti, thanked all the participants and all the staff of WAMA for the presentation and noted that the various presentations and ensuing discussion were mutually beneficial to both the ECB and WAMA. She expressed gratitude for the organization of the workshop; thanked the various presenters, the Director General of WAMA and the representative of the ECOWAS Commission and looked forward to further collaboration between the ECB and WAMA.
