The Youth Employment Evidence and Insights Hub

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Taxation and payment systems: Policies, initiatives and applications for MSMEs in the WAEMU countries

Youth Employment Evidence and Insights Hub

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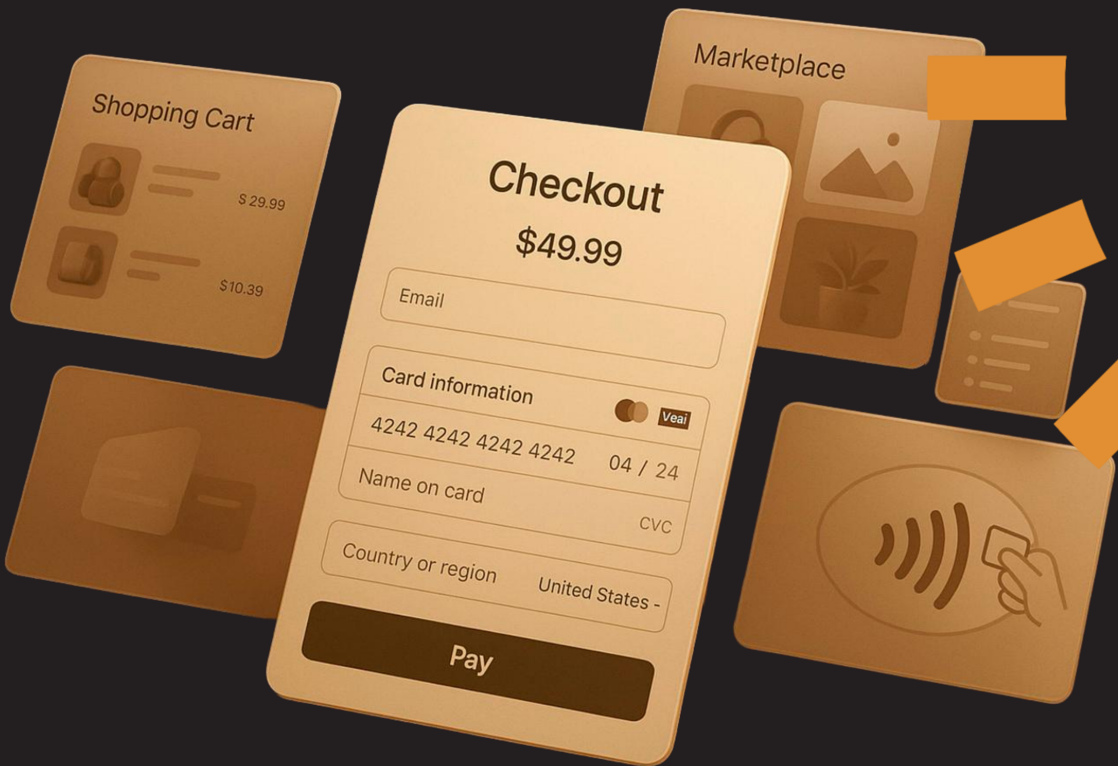

About the Youth Employment Evidence and Insights Hub

The Youth Employment and Evidence Insights Hub is a partnership convened by the Pan-African Collective for Evidence (PACE), which brings together key organizations from across Africa and beyond, with expertise and experience in how best to provide evidence and insights to decision-makers. The Youth Employment Evidence and Insights Hub supports the Mastercard Foundation to deliver its Young Africa Works Strategy.

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Summary

- This rapid review examined how taxation and payment systems across the eight WAEMU countries shape the operating environment for micro, small, and medium enterprises (MSMEs), with a particular focus on the implications for youth-led and women-led enterprises. Across the 63 documents reviewed, a consistent theme emerges: although taxation and digital payment reforms have increased in scope and ambition, their potential to support MSME growth remains limited by uneven implementation, low awareness, structural constraints, and persistent gaps in financial inclusion.
- Overall, the evidence points to three broad insights. First, WAEMU countries have made meaningful strides in tailoring tax policy frameworks to MSMEs. Côte d'Ivoire and Senegal, in particular, have introduced simplified regimes, tiered tax brackets, tax holidays, and exemptions intended to ease the burden on small enterprises and stimulate formalization. Yet these initiatives often fail to translate into widespread impact because MSMEs, especially those operating informally or in rural areas, lack access to information, struggle with administrative complexity, or perceive the tax system as punitive rather than enabling. As a result, uptake of tax incentives and compliance mechanisms remains inconsistent.
- Second, digital payment systems are rapidly expanding and have demonstrated early gains in reducing transaction costs, improving transparency, and modernizing financial interactions. Platforms such as Benin's PNPE, Côte d'Ivoire's TrésorPay and TrésorMoney, and regional interoperability systems signal a shift toward more accessible digital financial infrastructure. However, MSMEs, especially women-led enterprises, face enduring barriers, including weak internet coverage, high transaction fees, limited interoperability, and significant gaps in digital literacy, reflecting broader gender disparities in access to technology, training, and financial accounts.
- Third, a closer look at implementation realities reveals that policy ambition often outpaces execution. Many countries' tax incentives, financial inclusion strategies, and digitalization plans suffer from limited outreach, bureaucratic inefficiencies, and insufficient rural coverage. Even where digital payments grow,

they do not automatically unlock financing for MSMEs.

- Incorporating Indigenous knowledge systems into policy interpretation further highlights the importance of contextual relevance, fairness, community engagement, and local governance. These perspectives reinforce that sustainable reform cannot rely solely on technical tools. Policies must align with local norms, reflect community needs, and incorporate bottom-up participation to foster legitimacy and compliance.
- In conclusion, WAEMU countries possess a strong foundation for an enabling MSME environment, but the current landscape is characterized by fragmentation, uneven implementation, and persistent barriers to inclusion. Taxation reforms show promise but remain inequitably distributed, often benefiting urban or better-resourced MSMEs. Digital payment initiatives are accelerating, but leave behind rural operators, women, and small informal traders. Realizing the full benefits of taxation and digital payment reform will require a more integrated approach, such as one that combines policy coherence, improved digital infrastructure, large-scale financial and digital literacy programs, gender-responsive strategies, and legal frameworks that support innovation. Most importantly, reforms must be localized, participatory, and rooted in community trust-building if they are to reach MSMEs at scale. Strengthening these systems is essential for unlocking the economic potential of MSMEs and enabling youth and women to participate fully in the region's economic transformation.

1 | Introduction

Micro, small, and medium enterprises (MSMEs) are pivotal to the economic landscape of the eight countries that make up the West African Economic and Monetary Union (WAEMU): Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. As major drivers of employment and local economic development, MSMEs contribute substantially to national GDPs and are essential to addressing youth unemployment and underemployment across the region World Bank (2020). However, the growth and sustainability of these enterprises are shaped by several enabling or constraining factors, including the broader policy and regulatory environment.

Among the most influential policy areas for MSMEs are taxation systems and payment infrastructure. These elements affect business formation, survival, growth, and the ability of enterprises to scale and integrate into formal economies. MSMEs especially those led by youth and women are particularly sensitive to the burdens or benefits created by these systems. For many, challenges related to navigating complex tax regimes or accessing reliable digital payment channels are enough to discourage formalization or expansion.

To inform programming and policy design that better supports MSMEs in the WAEMU region, particularly under the Mastercard Foundation's Young Africa Works strategy, this rapid evidence review set out to answer two primary questions:

1. What is the impact of taxation systems on MSMEs in the WAEMU region?
    - What are the existing policies on MSME taxation within WAEMU countries?
    - To what extent have these taxation policies been implemented?
    - How does the taxation system influence the life expectancy and growth of new MSMEs in these countries?
    - What are the challenges and potential opportunities that current taxation policies present to MSMEs in the region?
2. What is the impact of payment systems on the transaction of MSMEs in the WAEMU region?
    - What are the current payment system policies for MSMEs in WAEMU countries?
    - What gaps exist in the current payment systems that affect MSME transactions in these countries?
    - What factors or policy drivers enhance the transaction environment for MSMEs in the region?

This review draws on an extensive body of documentation, including national policy papers, grey literature, and peer-reviewed studies in both English and French. From an initial pool of 110 documents, 63 were selected for synthesis, 30 focusing on taxation, and 33 on payment systems. The literature spans the period from 2019 to the present, with some earlier materials included where relevant. Given the limited availability of youth-specific data, the review pays close attention to the implications of broader MSME policies for young entrepreneurs and youth-led enterprises.

By translating complex policy discourse into actionable insights, this summary aims to support practitioners and policymakers seeking to design more effective, inclusive, and enabling environments for MSMEs in West Africa. It emphasizes not only what is currently being done, but also how these interventions are functioning on the ground and what more is needed to ensure MSMEs can contribute fully to the region's economic transformation. Innovation across training systems, WAEMU countries can improve teaching quality and ensure that education reforms translate into meaningful learning outcomes.

2 | Overview of Insights

Emerging practices, policy innovations, and persistent bottlenecks affecting MSMEs are becoming increasingly important to understand across Africa. While some countries have made strides in reforming fiscal and financial systems to support MSMEs, structural challenges and uneven implementation continue to limit the potential impact of these policies. The main insights from the evidence synthesis are summarised below:

Tax reforms are increasingly tailored to MSMEs, but implementation varies. Several WAEMU countries, particularly Côte d'Ivoire and Senegal, have introduced progressive tax reforms that aim to simplify compliance and reduce burdens on MSMEs. These include tiered tax rates based on turnover, exemptions for new businesses, and incentives linked to agricultural production or digital adoption. However, detailed implementation tracking is limited, and many MSMEs especially in rural and informal settings remain unaware of or excluded from these benefits (OECD, 2025).

Tax exemptions and incentives are common, but uptake is inconsistent. Across the region, a variety of tax incentives target MSMEs. These include VAT waivers on agricultural inputs (e.g. in Senegal), property tax exemptions for agricultural buildings (Benin), and reduced license fees or customs duties (Togo, Niger). While designed to stimulate investment and enterprise growth, the evidence suggests that low levels of awareness, administrative hurdles, and uneven access limit their effectiveness.

Digital payment systems are expanding, with encouraging early results. A number of national and regional initiatives such as Benin's National Electronic Payment Platform (PNPE), Côte d'Ivoire's TrésorPay and TrésorMoney, and UEMOA's Interoperable Instant Payment System, are beginning to reshape the financial landscape for MSMEs. These platforms have lowered transaction costs, increased transparency, and promoted cashless business practices, particularly in urban and semi-formal sectors.

However, major gaps hinder full adoption of digital finance.
Low digital literacy, poor internet access in rural areas, high transaction fees, and weak system interoperability continue

to restrict digital uptake among MSMEs (Shirono et al., 2024). Gender disparities further compound these barriers, with women-led businesses facing more pronounced exclusion. Despite policy ambition, the digital divide remains a critical constraint.

Access to finance remains a key barrier. MSMEs across the region face substantial credit gaps. Formal bank lending is limited, with fewer than 25% of MSMEs in Côte d'Ivoire and Senegal accessing institutional finance. High interest rates—sometimes reaching 24% in microfinance discourage borrowing (Koloma & Bah, 2022). Even where digital payment systems exist, they do not yet guarantee improved access to working capital or long-term finance.

Legal and policy frameworks are evolving, but regulatory uncertainty persists. The fintech ecosystem is growing, yet many new business models remain unsupported by existing regulations. This undermines trust and scalability. Additionally, long and costly debt recovery procedures deter banks from financing MSMEs, especially those perceived as high-risk or informal.

Indigenous knowledge systems offer alternative approaches to formalisation and trust-building.
Applying Indigenous ways of knowing highlights the value of contextual relevance, fairness, participation, and community governance. These insights suggest that integrating local norms, cooperative practices, and traditional accountability structures could improve tax compliance, policy uptake, and financial inclusion, particularly in underserved or informal economies.

In summary, while WAEMU countries have made meaningful progress in reforming taxation and digitising payments, the benefits are not yet equitably distributed. Closing the gap between policy and practice especially for youth-led, rural, and women-owned MSMEs, requires more inclusive, context-aware, and systems-based approaches.

3 | Findings

3.1 Taxation: Reforms, incentives, and missed opportunities

Taxation policies across WAEMU countries demonstrate a clear intent to support MSMEs. Measures include tax reforms, exemptions, subsidies, and fiscal incentives aimed at making the formal business environment more accessible and attractive to small enterprises.

Côte d'Ivoire presents a positive and well-structured tax system. Businesses are categorized by turnover, with tax rates tailored accordingly from a modest 2-5% for micro-enterprises (up to 50 million CFA franc) to standard rates for medium-sized firms. Joining tax compliance groups (CGAs) can lower tax rates, incentivizing formality (Manekam Advisory, 2024).

Senegal, in turn, offers generous VAT waivers on agricultural inputs and exempts new enterprises from taxes for three years (Britacom, n.d.;Law No. 2020-02 of January 7, 2020, Government of Senegal 2020). Benin, Niger, and Burkina Faso also grant tax exemptions for newly established MSMEs, particularly in agriculture (Fiscal and Customs Incentives for SMEs, Transitional Legislative Assembly, 2023). For example, Benin not only provides a one-year tax holiday but also increases reductions in subsequent years and exempts agricultural buildings from property taxes (Exemption from Unique Property Tax for Agricultural Businesses, General Directorate of Taxes (DGI), Benin, 2022). Togo subsidizes fertilizer prices to encourage local production (2022 Finance Law, Ministry of Economy and Finance, 2020).

These policies have shown results in both Senegal and Côte d'Ivoire where MSME creation and growth have increased over the past decade, in part due to simplified compliance processes and tailored fiscal support (Koloma & Bah, 2022).

Few studies document the implementation status of these tax policies. Where insights do exist, they reveal that small businesses continue to face challenges in understanding and navigating the formal tax system (Hoy et al., 2024). In some regions, taxes are still perceived as arbitrary or punitive—leading to informality and mistrust. Electronic tax filing and online refund systems, as seen in Côte d'Ivoire, are rare and not yet widespread (Doing Business 2020).

Moreover, enforcement challenges and a lack of awareness reduce the uptake of these incentives. Informality remains high, partly due to fear of corruption and lack of engagement with local governance structures. There is an evident disconnect between policy design and ground-level realities.

3.2 Payment systems: Digital progress and inclusion gaps

Efforts to modernize payment systems have accelerated in recent years, driven by the promise of digital finance to enhance traceability, reduce costs, and improve MSME cash flow. Many WAEMU countries have launched national financial inclusion strategies emphasizing electronic payments (Payment Digitalization Guide for Member States).

Niger's Smart Villages Project, for instance, is a bold initiative aiming to connect 2,000 villages and equip rural SMEs with digital payment terminals. In Benin, the PNPE digital platform has reduced transaction costs by 50% and increased MSME engagement in digital payments by 30%. Côte d'Ivoire's TrésorPay and TrésorMoney streamline public payments and reduce reliance on cash.

Programs like Senegal's e-SME project and Côte d'Ivoire's PEPITE 2030 are notable for actively supporting MSMEs in adopting digital platforms. These initiatives have helped thousands of small businesses transition to formal systems, offering improved financial management and market access.

Yet, structural barriers endure where key gaps include:

1. **Limited awareness**: Many MSMEs, especially in rural areas, lack basic digital literacy. Côte d'Ivoire's Merchant Payments Barometer shows that over 40% of merchants don't know how to use digital tools effectively (Merchant Payment Barometer).
2. **Cost**: WAEMU countries report banking fees among the highest globally. MSMEs often avoid digital payments due to expensive transaction charges, preferring cash despite its inefficiencies (Shirono et al., 2024).
3. **Infrastructure**: Poor internet connectivity and lack of interoperability between systems make digital adoption difficult. Rural MSMEs are particularly disadvantaged.
4. **Credit access**: Financing remains out of reach for most MSMEs. Côte d'Ivoire faces a $2.4 billion MSME financing gap; Senegal, nearly $1 billion. High interest rates and lengthy debt recovery processes discourage lending to high-risk businesses.
5. **Gender disparities**: Women-led MSMEs are less likely to adopt digital payments or formalize their operations. Only 40% of women in Côte d'Ivoire hold financial accounts compared to 65% of men (Ky & Rugemintwari, 2024 , WAEMU Financial Sector Assessment (FSA)).

3.3. Aligning with local realities

Applying Indigenous knowledge systems to policy design reveals valuable pathways for inclusive reform. Five key principles emerge:

1. **Contextual relevance**: Tax policies must acknowledge the informality of most MSMEs. Many view taxation as government overreach. Engaging local leaders and traditional governance structures can build legitimacy and trust.
2. **Fairness and sustainability**: Indigenous systems emphasize reciprocity. Tax policies should be equitable and support long-term business viability, not just short-term revenue collection.
3. **Participation and empowerment**: MSMEs need a seat at the table. Dialogue, training, and co-creation of policies enhance compliance and effectiveness.
4. **Decentralized governance**: Localized tax collection and transparent allocation can ensure that tax revenues serve the communities where they are generated.

5. **Economic self-reliance**: Recognizing cooperatives and savings groups as legitimate actors can bridge formal-informal divides. Tax holidays, tailored incentives, and integration of traditional economic practices strengthen resilience.

4 | Conclusion

The evidence from WAEMU countries tells a story of ambition and uneven implementation. Taxation and payment systems hold significant potential to empower MSMEs but only if designed and delivered with context, clarity, and inclusion in mind.

On taxation, progress is visible. Countries have deployed an array of exemptions, reforms, and subsidies. Senegal and Côte d'Ivoire stand out for their structured and responsive tax regimes. Yet across the region, formal taxation still feels like an elite exercise. Lack of awareness, weak enforcement, and limited outreach keep many MSMEs in the shadows.

For payment systems, the shift toward digital is well underway. Infrastructure investments and national strategies signal commitment. However, the barriers costs, literacy, connectivity, gender inequity are formidable. Despite the digital momentum, MSMEs remain hesitant adopters.

What stands out most is the need for integration. Tax and payment policies must be part of a broader ecosystem of support. Financing mechanisms, legal frameworks, capacity-building programs, and gender-responsive strategies all play vital roles. Interventions must be coordinated, inclusive, and localized.

The review underscores that policies succeed not when they are written, but when they are used. That requires participatory design, clear communication, and meaningful incentives. Indigenous frameworks offer a powerful reminder that knowledge and governance are embedded in community. Reform efforts that ignore this risk reinforce exclusion.

To move forward, WAEMU policymakers and partners should prioritize:

1. **Policy coherence** across taxation, finance, and entrepreneurship support.
2. Investments in digital infrastructure, particularly in rural areas.
3. **Gender-responsive strategies** that proactively include women-led MSMEs.
4. Capacity-building and financial literacy for MSMEs at scale.
5. **Legal reforms** that facilitate innovation, especially in Fintech.

WAEMU's future economic resilience depends on unlocking the full potential of MSMEs. That journey starts with making the rules of the game transparent, fair, and usable and ensuring that the systems meant to serve small businesses actually reach them. Only then can taxation and payment policies become engines of inclusive growth rather than barriers to enterprise.

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