



Unlocking Public and Private  
Finance for the Poor

A decorative graphic on the left side of the page, consisting of several concentric, wavy blue lines that curve upwards and to the right. Small blue circles are scattered along these lines, resembling a stylized network or data flow.

# **HARMONIZATION OF REMITTANCE POLICIES IN THE INTERGOVERNMENTAL AUTHORITY ON DEVELOPMENT (IGAD) REGION**

Diagnostic Report  
September 2022

# ABOUT

The UN Capital Development Fund makes public and private finance work for the poor in the world's 46 least developed countries (LDCs).

UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF pursues innovative financing solutions through: (1) financial inclusion, which expands the opportunities for individuals, households, and small and medium-sized enterprises to participate in the local economy, while also providing differentiated products for women and men so they can climb out of poverty and manage their financial lives; (2) local development finance, which shows how fiscal decentralization, innovative municipal finance, and structured project finance can drive public and private funding that underpins local economic expansion, women's economic empowerment, climate adaptation, and sustainable development; and (3) a least developed countries investment platform that deploys a tailored set of financial instruments to a growing pipeline of impactful projects in the "missing middle".

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<sup>1</sup> Djibouti, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda.

# ACRONYMS AND ABBREVIATIONS

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATM	Automated teller machine
CDD	Customer due diligence
COMESA	Common Market for Eastern and Southern Africa
EAC	East Africa Community
e-KYC	Electronic know your customer
GDP	Gross domestic product
ID	Identification
IGAD	Intergovernmental Authority on Development
ISO	International Organization for Standardization
KYC	Know your customer
MFI	Microfinance institution
NFC	Near-field communication
POS	Point of Sale
PSP	Payment system provider
RSP	Remittance service provider
RTGS	Real-time gross settlement system
STP	Straight-through processing
UNCDF	United Nations Capital Development Fund

# ABOUT THIS REPORT

This is a diagnostic report on harmonizing remittance policies in the Intergovernmental Authority on Development (IGAD) region.

Prepared by the United Nations Capital Development Fund (UNCDF) and the IGAD Secretariat, it is the result of a larger project on the harmonization of remittance policies in the IGAD region. The main objective of this project is to improve the IGAD countries' existing and ongoing development of policies and regulatory frameworks and other initiatives relating to remittances. The strategic objective for the IGAD countries is to harmonize policy and legal/regulatory frameworks that will support the transition of remittances from cash-based to digital channels and from informal to formal ones, ultimately leading to increased volumes and efficiency of remittance flows, lower costs and greater access to finance in the region.

Remittance flows are essential to the IGAD region. In the fourth quarter of 2021, remittances totalled US\$8.8 billion—or 4 percent of the region's gross domestic product (GDP). This report focuses on assessing policies and payment infrastructure and drawing up a road map to enhance cross-border remittance flows in the IGAD region.

Despite their importance, remittances tend to flow in distinctly suboptimal ways. Migrants earn in the currency of their host country, and when it is time to send money home, they pay cash to an over-the-counter remittance service provider (RSP). This provider may charge high transaction costs to send the money to the recipient, who often pays a high fee to convert that money into the home country's currency. Remittances may also move as physical cash or *hawala*<sup>2</sup> through unregulated informal channels, exposing both sender and recipient to the inherent risks of carrying cash and currency conversions and preventing governments from having a clear picture of their country's foreign currency flows.

At the request of the IGAD Secretariat, UNCDF has worked with the Secretariat and other public and private stakeholders to conduct a regional diagnostic assessment of existing remittance arrangements, laying the groundwork for a response to improving the current regional cross-border remittance arrangements and proposing a road map of practical steps needed to achieve harmonization of remittance policies and practices. This assessment—of policies, laws and regulations, and cross-border remittance-related infrastructure—aims to create a roadmap for effective mechanisms to facilitate remittances between the residents of the participating countries. Observations and comments on

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<sup>2</sup>An informal method of transferring money without any money physically moving from one place to another, based on a system of money lenders known as *hawaladars*, generally used in the Middle East and Africa and on the Indian subcontinent outside traditional banking systems.

each of the respective policies, laws and regulations have been benchmarked against those in a range of comparable yet diverse policy and economic environments across Africa and Asia. The authors have also mapped the enablers, inhibitors, and recommendations in the areas identified for possible intervention. Therefore, this report will prompt discussions, dialogue, and alignment between and among IGAD Member States and relevant stakeholders to ensure the implementation of a straightforward and compelling regional roadmap on harmonising remittance policies with key actions going forward.

UNCDF and the IGAD Secretariat recognize that the report's recommendations cover a broad spectrum of possibilities and look forward to working with and supporting businesses, policymakers, financial service providers, regional regulators and other development partners to determine which considerations can be taken up. UNCDF looks forward to providing practical support or advice and supporting the key stakeholders to take greater interest in and action towards implementing the roadmap to achieve the intended outcomes and make the project and its objectives a reality.

# EXECUTIVE SUMMARY

Migration<sup>3</sup> and financial landscapes impact the IGAD region's remittance market, and this has been taken into consideration in a comprehensive review of all potential remittance-impacting factors in the region. Most countries in the region are migrant countries of origin, transit and destination. Intra-regional migration, which is significant, is characterized by migration flows that multiple drivers influence. According to the International Organization for Migration's report,<sup>4</sup> estimates indicate that most international migrants are intra-regional. Indeed, the top five destination economies for IGAD migrants are Uganda, Sudan, Ethiopia, Kenya and South Sudan. Intra-regional migration dominates for several reasons, including visa-free movement among some IGAD Member States, labour migration related to the regional projects, the relatively small size of some IGAD countries, and the strong networks among the many ethnic groups scattered across the region leading to irregular migration. Remittance flows, therefore, originate from both within (intra-regional) and outside the region. A considerable proportion of intra-regional remittance flows are informal due to the nature of the migration.

## Advantages of harmonizing remittance policies in the IGAD region

Regional harmonization of remittance policy and regulatory frameworks clears the way for deepening financial markets, making monetary policy more effective, reducing supervision and implementation costs and improving access to remittance services for a larger population, thereby fostering economic growth. Moreover, it leads to better policies and supervision, a wider field of interconnected financial services and the proliferation of new technology as cross-border RSPs transfer know-how to other partner states in which they operate or have established subsidiaries or branches. Other regions' experiences<sup>5</sup> suggest that in countries where regional cross-border financial entities account for a significant share of market transactions, they improve the interbank and foreign exchange markets, create competition and reach populations that previously had no or limited access to financial services. Other benefits of regional harmonization include a broader range of formal remittance services and financial products for a more diversified clientele, including unbanked women and men migrants and the low-income segment of the population, especially in rural areas, as a result of more efficient and affordable access to digitized remittance services.<sup>6</sup>

Moreover, regional harmonization of remittance policies, even without a monetary union, creates far-reaching regional financial market development opportunities. Small RSPs could benefit the most from regional harmonization due to reduced investment costs and the opening of new markets for them, which in turn enables them to build viable business models. Finally, allowing RSPs operations at the regional level has the potential to drive down costs and enhance competition.

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<sup>3</sup> A migrant in this case is any person who changes his or her country of usual residence (United Nations, Department of Economic and Social Affairs, Statistics Division, 'Recommendations on Statistics of International Migration', New York, 1998, [https://unstats.un.org/unsd/publication/SeriesM/SeriesM\\_58rev1E.pdf](https://unstats.un.org/unsd/publication/SeriesM/SeriesM_58rev1E.pdf)).

<sup>4</sup> International Organization for Migration, 'World Migration Report, 2020', Geneva, 2020, [https://publications.iom.int/system/files/pdf/wmr\\_2020.pdf](https://publications.iom.int/system/files/pdf/wmr_2020.pdf) (accessed 18 October 2021).

<sup>5</sup> Benedicte Vibe Christensen, 'Financial integration in Africa: implications for monetary policy and financial stability', BIS Paper No. 76, Bank for International Settlement, Basel, <https://www.bis.org/publ/bppdf/bispap76c.pdf> (accessed 18 October 2021).

<sup>6</sup> Ibid.

## Main challenges facing remittance flows in the IGAD region

Financial markets in the IGAD region are at disparate levels of development. Rates of financial inclusion are typically low. The banking sector dominates the formal financial sector, serving a select clientele, usually in urban areas, with a limited range of financial products. The policy and regulatory environments limit service provision, particularly for non-bank RSPs, by being disproportionate to the risks posed by these providers, leading to limited competition, persistent informality, and high transaction costs. Typical evidence of informality can be noted by looking at data on women and men migrants and the corresponding remittance flows in various corridors. For example, some corridors have no remittance data available, although indications from the migration data suggest several migrants in those corridors. Further evidence of informality is the prevalence of the hawala system in the region, whereby money is paid to an unregistered agent in the country of origin, who then instructs a local associate in the country of destination to pay out the money to the recipient. Moreover, some countries in the region lack data on the cost of remittances for some corridors.

The best way to show the actual cost of sending money is by looking at the existing statistics. In the last quarter of 2021, the average cost of remittances to IGAD countries was 8.5 percent, nearly three times the Sustainable Development Goals target rate of below 3 percent. In 2021, remittances sent to IGAD countries reached \$8.8 billion<sup>7</sup> and, thus, cost just over \$753 million in fees. The cost of intraregional remittances is even higher, at an average of 10.2 percent.

When an individual or institution transfers funds across borders, they rely on an intricate network of correspondent banks coordinating across different time zones and currencies. Reliance on correspondent banks results in limited operating hours and settlement delays. Frictions are further aggravated by a lack of convertibility of local currencies in the region. Foreign exchange conversion rates and fees are applied, mainly because the local currencies have limited liquidity due to little transaction activity. When individuals want to make cross-border payments, they often must go through a more liquid currency such as the Euro, GBP or US\$, adding both time and expense and increasing vulnerability to exchange rate fluctuations. In addition, there are compliance costs, fees along the remittance value chain, and a liquidity cost for pre-funding. When remittances involve smaller-value payments—a typical scenario for many migrants—they are impacted more by high transaction fees relative to the sum being transferred.

The foreign exchange conversion rates and fees are further affected by differing foreign exchange frameworks among the countries in the region. For example, some countries have restrictive exchange rate regimes, causing parallel exchange markets—that is, formal and informal markets. As a result, there is a gap between the official and informal exchange rates. This, in turn, encourages remittances to be channelled through unregulated channels with unpredictable exchange rates, presenting risks to both consumers and the financial system. These unregulated channels can be linked to money laundering, financing of terrorism, human trafficking, and other abuses. Informal channels also deprive governments of a clear understanding of their in-bound and out-bound currency flows, distorting the true picture of their balance of payments and cross-border remittance flows.

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<sup>7</sup> KNOMAD, 'Remittance Data,' <https://www.knomad.org/data/remittances> <https://www.knomad.org/data/remittances> (accessed on 20 July 2022).

Disjointed national RSP licensing laws and regulations increase compliance costs for RSPs. For example, in the IGAD region, some countries have licensing frameworks for non-bank RSPs, while others do not. The licensing practices and requirements differ significantly, making it harder to establish a cross-border remittance business. Moreover, there are no standardized and transparent licensing criteria for cross-border players, particularly mobile money operators, or criteria for securing approval to connect new corridors. The non-bank RSPs' regulatory frameworks transpose some requirements from regulations for deposit-taking institutions, thus subjecting non-deposit-taking RSPs to disproportionate requirements.

Other compliance costs arise from anti-money laundering/combating the financing of terrorism (AML/CFT) checks, especially because regulatory authorities lack clear guidelines on risk-based customer due diligence (CDD) and proportionate risk management levels for mobile money operations.

Furthermore, IGAD countries lack a common policy on standards for key payment technologies, procedures and security features. This means that similar innovations and technologies are often incompatible, creating processing costs and delays for beneficiaries by increasing the complexity of reconciliation processes. The lack of interoperability in mobile money at the retail level, automated teller machines (ATMs) and point of sale (POS) limit payment options available to consumers and perpetuate monopolistic elements within the market. Such a monopolistic environment may lead to bigger and more financially capable players dominating the markets, limiting competition and cost reduction.

Data on remittance flows in the IGAD region vary from country to country due to differences in the availability of data, national legislation, methodology and concepts used. In general, IGAD countries recognize the importance of standardising concepts and definitions and following internationally accepted standards, guidelines or best practices in capturing and measuring remittance flows. However, there are different levels of implementation, and balance of payments and remittance statistics are compiled following the standards set out in the old editions of the International Monetary Fund's Balance of Payments and International Investment Position Manual. There is also limited capacity and a lack of systems to monitor and analyse remittance flows at the transaction level.

Regional cooperation is, therefore, of paramount importance in addressing these barriers to cross-border remittances, advancing the digitalization of remittance channels and thus improving the overall efficiency of remittance flows.

## Proposed responses

The high cost of remittances calls for a more impactful process to create enabling policy and regulatory frameworks to digitize and optimize remittances to reduce remittance transaction costs.

The current remittance policy and regulatory frameworks in IGAD countries have been assessed to capture what works, what does not work, and which actions policymakers and regulators can prioritize. Coordinated efforts to implement policy, legal and regulatory reforms coupled with strengthening the regulatory capacity could reduce costs to a level that supports the participation of even the lowest-income receivers in the regional economy. A good starting point to achieve the intended results would

be to create a shared understanding of a regulatory framework specifically focused on remittances to address the challenge of multiple approaches to remittance regulation across IGAD Member States. Specific country actions have been undertaken to give an explicit legal mandate to central banks' involvement in regulating remittance services. These actions range from recognising non-bank RSPs in the specific payment system laws to promulgating regulations for non-bank RSPs to achieve the same goal. Notwithstanding the reforms already undertaken, this project benefited from critically assessing these legal arrangements in the individual Member States and proposing measures that would ensure legal certainty at both domestic and regional levels to reduce the compliance cost.

Agreeing on areas for possible convergence in the licensing and authorization regimes could be a step forward. The main recommendation is to establish a regional mutual recognition policy for remittance services, which could constitute a significant step in promoting remittance services. Under this policy, a non-bank RSP licensed by the supervisory authority in one of the IGAD countries would be authorised to operate in all other IGAD countries by simply notifying the supervisory authority of the host country, on the understanding that overtly protectionist measures may limit the opportunities for access by foreign RSPs and hence increase barriers to cross-border payments in the region.

Another enabling factor is enhancing financial integrity. AML/CFT laws and regulations could be proportionate to the value of cross-border transactions to promote remittance services. Risk-based CDD can easily detect suspicious transactions while allowing the regulator to focus resources on the most significant risks. One regulatory response that could directly impact customer onboarding is the introduction of flexible know your customer (KYC) and electronic KYC (e-KYC). For example, regulatory authorities of some countries in Africa in mid-2020 permitted more flexible KYC processes during the crisis caused by the COVID-19 pandemic, aimed at enabling more people to make digital payments. A replication or even an improvement of this practice by IGAD countries may be instrumental in enhancing access and usage and the financial resilience of women and men migrants.

Consumer protection, transparency and a complaints resolution mechanism are important areas to consider for enhancing remittance services. The main recommendation here is to establish within countries and then across the region a one-stop window for complaints resolution and consumer protection and to have harmonized guidelines on consumer protection in place.

Increasing access to mobile money and online banking services may be the quickest way to offer a large number of people cheaper remittance payment options because these, in turn, enable retail payment systems to flourish. According to World Bank data,<sup>8</sup> in the fourth quarter of 2020, the cheapest method for funding a remittance transaction globally was mobile money, at 4.36 percent. The average cost for using a debit or credit card was 4.82 percent, for sending money using cash was 7.06 percent, and for funding the transaction using a bank account was 6.66 percent.

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<sup>8</sup> World Bank, 'Remittance Prices Worldwide Quarterly', Issue 36, December 2020, Washington, DC, [https://remittanceprices.worldbank.org/sites/default/files/rpw\\_main\\_report\\_and\\_annex\\_q42020.pdf](https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q42020.pdf) (accessed 11 August 2021).

One potential approach to optimize cross-border payments between senders and receivers is through investment in retail payment system infrastructure to reduce the current over-dependence on corresponding banks and compliance costs from foreign exchange and AML/CFT and KYC regulations. Leveraging the existing payment infrastructures to support cost-effective solutions could be one of the options. The intended output is to achieve cross-border interoperability and harmonization of these payment infrastructures' operating standards to achieve high rates of automated straight-through processing (STP) of remittances. Interoperability would also address the problem of delays due to limited operating hours and long transaction chains. An ideal norm would be to have a system where multiple central banks are directly connected or where banks, mobile money operators and other significant electronic money operators can interact instantaneously on a single network or a payment platform to enable real-time settlement of cross-border payments. Such a reform outcome could help link national economies with less reliance on correspondent banks, drastically reducing the cost of cross-border payments because of a more efficient, cost-effective, and accessible cross-border payment system. A single regional settlement platform would be highly efficient, much like how centralized clearing and settlements have enabled domestic payments to be made instantly and often at less cost for consumers. A regional settlement platform can enable direct transactions with different currencies, improving liquidity and allowing faster and cheaper regional payments. It would also have carry-on benefits for the wider financial and trade systems at national and regional levels and would better enable the IGAD Member States to position themselves in wider regional initiatives such as the African Continental Free Trade Area.

# INTRODUCTION

## Remittance landscape

Migrant remittances are understood as the money or goods that migrants<sup>9</sup> send back to families and friends in their origin countries.<sup>10</sup> Migrant remittances are often the most direct and well-known link between migration and development. Many low- and middle-income countries represent a significant share of GDP, and at the household level they are an essential source of capital and used for various purposes, but, most importantly, to meet basic needs.

Globally, an estimated 281 million people,<sup>11</sup> or 4 percent of the world's population, live outside their country of origin and send \$772 billion<sup>12</sup> in remittances. In 2021, officially recorded remittance flows to low- and middle-income countries reached \$605 billion, which is 8.6 percent higher than the amount recorded in 2020.<sup>13</sup> Sub-Saharan Africa received an estimated \$49 billion in remittances, which is 14 percent higher than the amount recorded in 2020.<sup>14</sup> Remittances to sub-Saharan Africa account for 3 percent of the region's GDP.<sup>15</sup> The economic impact of remittances on the receiving countries depends on how this money is spent by recipient households and channelled into the larger economy. They also have impacts at the macro level on currency exchange rates and foreign reserves, among others. If these flows increase consumption in sectors with strong sectoral linkages with other economic sectors, the positive effect of remittances may propagate to these sectors and amplify the aggregate effect on the entire economy.

## Regional context

Remittances to the IGAD region have increased by 8.6 percent to \$8.8 billion,<sup>16</sup> demonstrating resilience. This increase has been attributed to an increase in reported remittances in Ethiopia (8 percent), Kenya (20 percent), and Uganda (8 percent), despite decreases noted in Djibouti (18 percent) and Sudan (13 percent). There was no change recorded for Somalia.<sup>17</sup>

Most countries in the IGAD region are countries of origin, transit, and sometimes destination, so remittance flows originate from both within (intra-IGAD) and outside the IGAD region. As indicated in Figure 1, remittances represent a significant percentage of GDP for some countries, especially Somalia

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<sup>9</sup> Throughout this report the focus is on international male and female migrants managing cross-border and 'home vs. host' country issues, rather than domestic migrants moving, for example, from rural to urban areas. Remittances include compensation of employees and personal transfers by migrants.

<sup>10</sup> Migration Data Portal, 'Remittances', 3 June 2021, <https://www.migrationdataportal.org/themes/remittances> (accessed 31 May 2021).

<sup>11</sup> United Nations Population Division, 'International Migrant Stock', <https://www.un.org/development/desa/pd/content/international-migrant-stock> (accessed on 20 July 2022).

<sup>12</sup> KNOMAD, 'A war in a pandemic, Implications of the Ukraine crisis and COVID-19 on global governance of migration and remittance flows, Migration and Development Brief 36', Washington, DC, May 2022, [https://www.knomad.org/sites/default/files/2022-05/Migration and Development Brief 36\\_May 2022\\_0.pdf](https://www.knomad.org/sites/default/files/2022-05/Migration%20and%20Development%20Brief%2036_May%202022_0.pdf) (accessed on 20 July 2022).

<sup>13</sup> KNOMAD, 'Remittance Data', <https://www.knomad.org/data/remittances> (accessed on 20 July 2022).

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

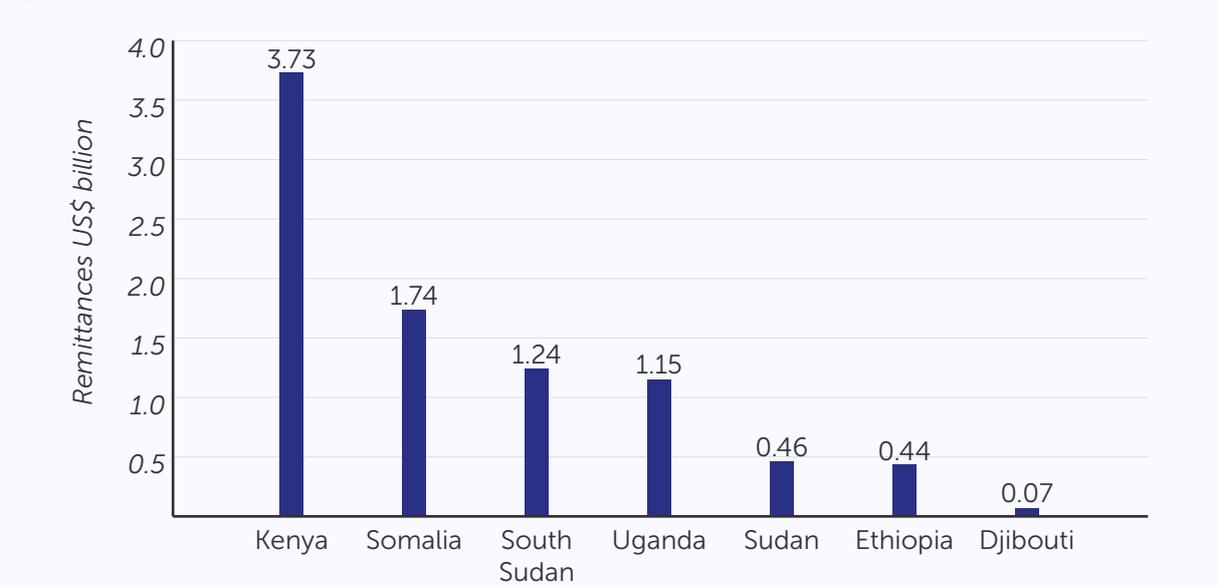
<sup>17</sup> Ibid.

and South Sudan. It is important to note that informal remittances—which represent a large proportion of remittance transfers within the IGAD region—remain unaccounted for. Intra-IGAD remittance flows generally tend to be along remittance corridors between neighbouring countries. Remittance flows from outside the IGAD region are predominantly from North America, the United Kingdom, Canada, and Saudi Arabia.

Irrespective of the direction of remittance flows—i.e., from outside or within IGAD—all countries would benefit from regional collaboration on remittance flows, corridors, mechanisms, institutions and policy, especially given the COVID-related impetus towards greater digitization. In addition to issues that the IGAD region has already faced in terms of natural disasters and conflict, the COVID-19 pandemic and the war in Ukraine have caused additional pressures in terms of economic slowdowns, unemployment, debt pressures and foreign exchange reserve considerations, among others.

On the remittances front, a global economic slowdown affected the economies of destination countries both within and outside IGAD. Lockdown measures imposed in the immediate term impacted migrants’ ability to earn and send money. However, in a more medium-term context, the war in Ukraine and the pandemic-related economic slowdown may result in low or no employment prospects or migrants returning home, depending on the destination country’s economic situation. Out of the 159 developing countries analysed, the number of underserved communities in developing countries had increased by 71 million in the three months since March 2022, when the war in Ukraine broke out.<sup>18</sup> Reductions in remittances may impact receiving communities within IGAD at a micro level, i.e., for education, health and food, but could also have more significant economic impacts in terms of investments in small businesses, small- and larger-scale trade flows, and at the macroeconomic level, impacts on inflows of foreign exchange and currency appreciation, among others. This calls for sustained efforts to harness remittance flows for productive investment, thus contributing to the region’s long-term development.

Figure 1(a): Remittances to IGAD countries, 2021



<sup>18</sup> UNDP Report, <https://www.undp.org/press-releases/global-cost-living-crisis-catalyzed-war-ukraine-sending-tens-millions-poverty-warns-un-development-programme> (accessed on 10 August 2022)

Figure 1(b): Volume of remittances by sending economy, 2021 (\$ millions)

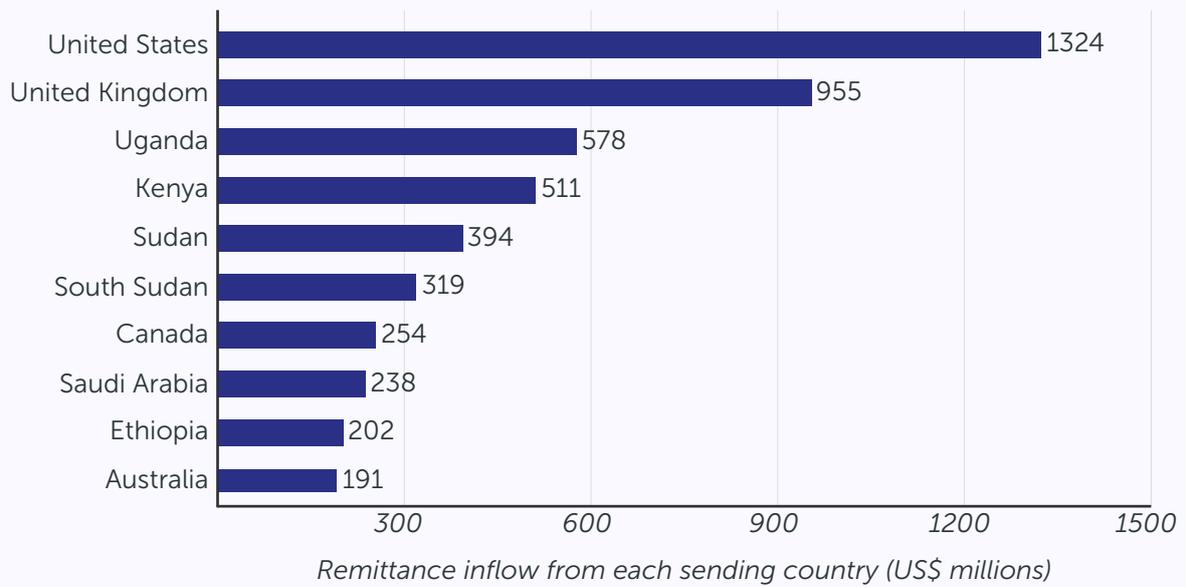


Figure 1(c): Remittance inflows as a percentage of GDP, 2021

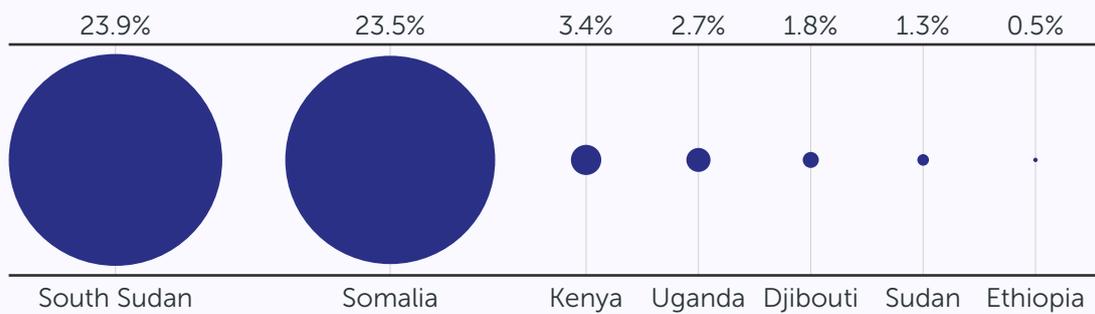


Figure 1(d): Trend of remittance inflows, 2021 compared with 2015

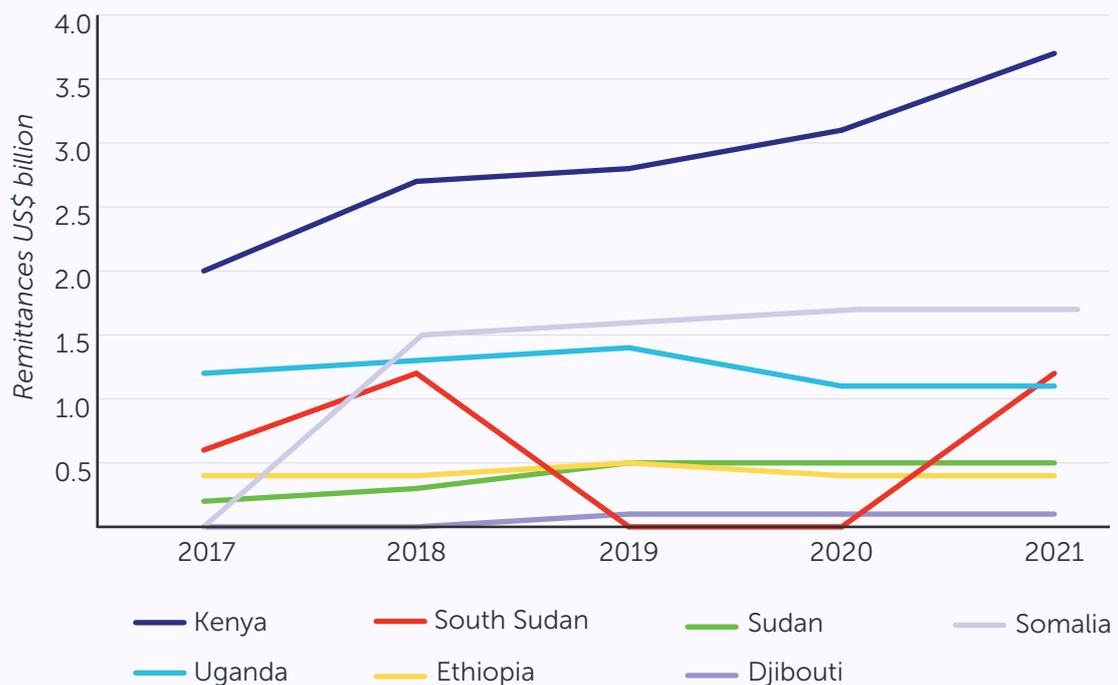


Figure 1(e): Average transaction cost per \$200, 2021



Figure 1(f): Migrant remittance inflows – IGAD Region



Figure 1. Overview of inbound remittance flows and cost to/within the IGAD region'

Source: World Bank, 'Remittance Prices Worldwide', <http://remittanceprices.worldbank.org>; and KNOMAD, 'Remittances', <https://www.knomad.org/data/remittances> (accessed on 20 July 2022).

In 2021, the total number of migrants recorded in the IGAD region was 9.8 million—or 4 percent of the region's total population<sup>19</sup>—which is over 27.3 percent increase within five years. In 2021, the number of female migrants recorded was 4.7 million, while the number of male migrants was 5.1 million.<sup>20</sup> Migration in the IGAD region may be regular or irregular—i.e., moving with or without

<sup>19</sup> United Nations Population Division, 'International Migrant Stock', <https://www.un.org/development/desa/pd/content/international-migrant-stock> (accessed 31 May 2021).

<sup>20</sup> Ibid.

the necessary permission and identification. Each kind of migration raises the possibility of different kinds of remittance transfers and impacts for the IGAD Member States individually and/or as a region, including different implications for remittance source, size, channel, direction, use and impact. For example, irregular migrants tend to be excluded from accessing formal remittance channels due to their lack of legal identities and inability to meet KYC requirements. As a result, they tend to rely more on informal remittances. The number of intra-IGAD migrants is high, i.e., the top five destination economies for IGAD migrants are within the region where there are many undocumented migrants. Consequently, there is a greater tendency to rely on informal channels for intraregional remittances. This partly explains the considerable cost for intra-IGAD remittances compared to the average cost of all inbound remittances.

Figure 2(a): Number of migrants over time

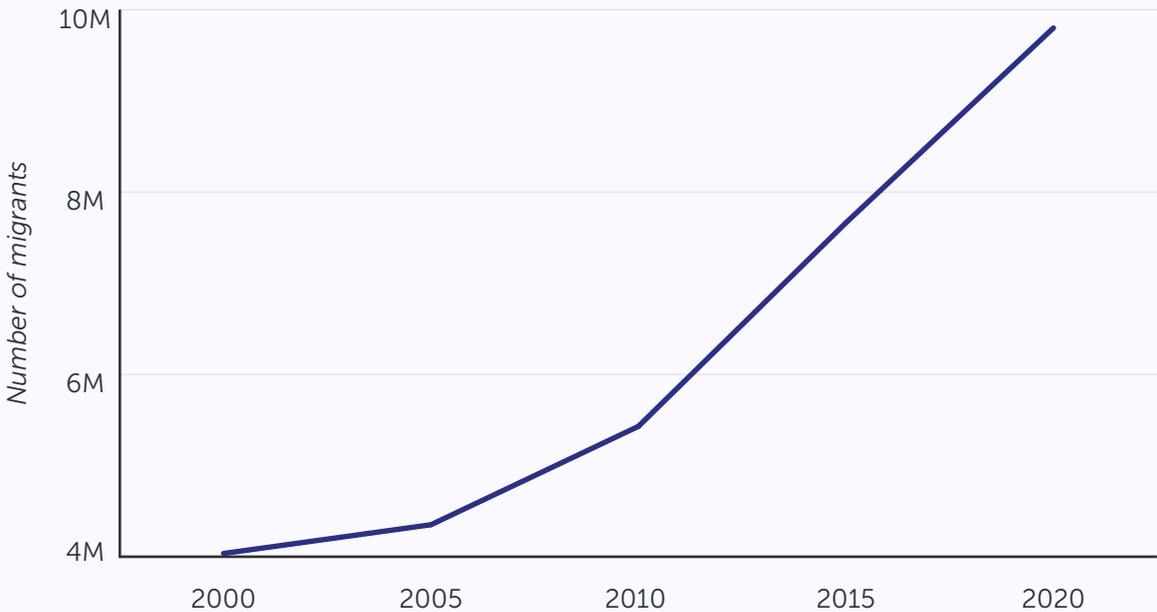


Figure 2(b): Number of migrants in destination economy, 2020

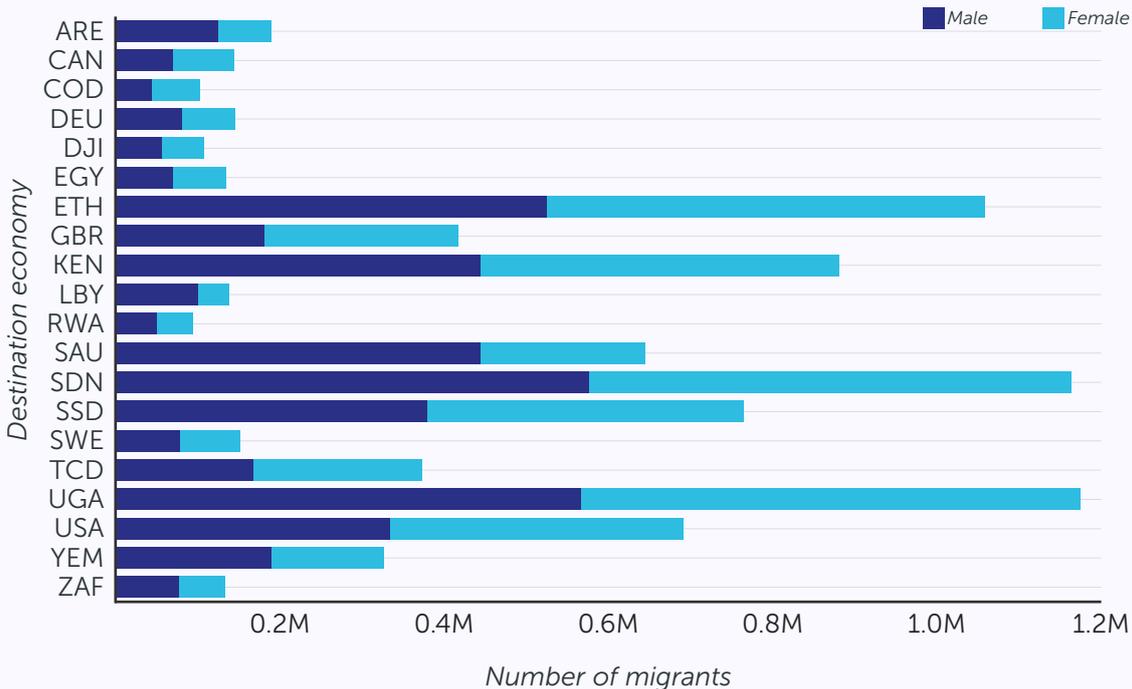


Figure 2(c): Number of migrants from original economy, 2020

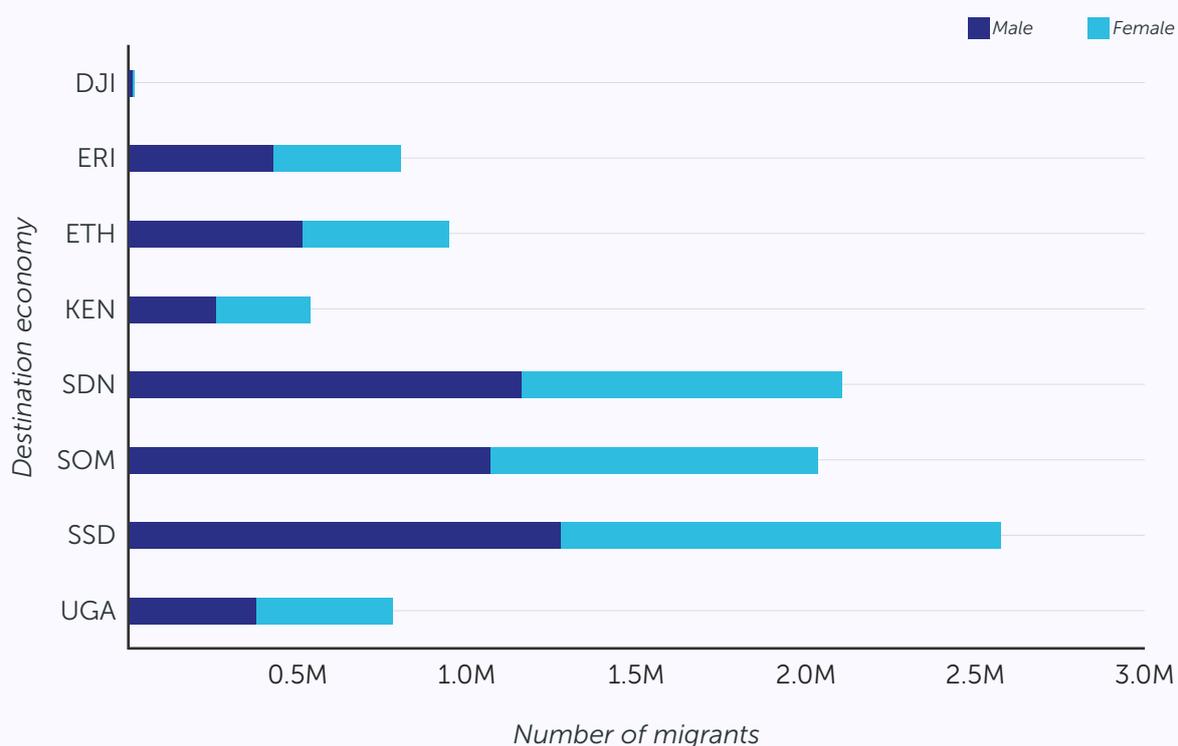


Figure 2. Migration in the IGAD region

ARE=United Arab Emirates, CAN=Canada, COD=Democratic Republic of the Congo, DEU=Germany, DJI=Djibouti, EGY=Egypt, ETH=Ethiopia, GBR=United Kingdom, KEN=Kenya, LBY=Libya, RWA=Rwanda, SAU=Saudi Arabia, SDN=Sudan, SSD=South Sudan, SWE=Sweden, TCD=Chad, USA=United States of America, UGA=Uganda, YEM=Yemen, ZAF=South Africa.

## Market

In the IGAD region, formal remittance inflows are channelled through banks and non-bank RSPs, including mobile money service providers.

**Banks:** The banking sector in the IGAD region comprised 201 banks as of December 2021, holding more than 90 percent of financial sector assets.<sup>21</sup> Over 90 percent of financial service access points are in major towns.<sup>22</sup> According to the International Monetary Fund’s Financial Access Survey,<sup>23</sup> there are 4.1 bank branches per 100,000 adults in the IGAD region, less than the sub-Saharan African average of 4.7.

**Microfinance institutions (MFIs):** As of December 2021, there were 93 deposit-taking MFIs across the region.<sup>24</sup> Most MFIs have not partaken in any switch, as technologically, they are lagging behind banks. In IGAD countries, MFIs cannot engage in international remittance operations without separate licences issued under relevant money transfer regulations.

<sup>21</sup> Source: IGAD central banks’ annual reports.

<sup>22</sup> Ibid.

<sup>23</sup> World Bank, ‘Commercial bank branches (per 100,000 adults)’, <https://data.worldbank.org/indicator/FB.CBK.BRCH.P5> (accessed on 21 July 2022).

<sup>24</sup> IGAD central banks’ annual reports.

**Mobile network operators (MNOs):** The IGAD region has private and state-owned MNOs. As of December 2021, there were 28 MNOs across the region,<sup>25</sup> with a profusion in Somalia. All countries have telecommunication laws to support the development of the information and communications sector, including broadcasting, cybersecurity, multimedia, telecommunications, electronic commerce, and postal and courier services. The laws also provide for licensing of all systems and services in the communications industry—namely, telecommunications, postal and courier services, and broadcasting—and monitoring the activities of licensees to enforce compliance with licence terms and conditions.

**RSPs:** Remittance services in IGAD countries are offered by both banks and non-bank RSPs. The operations of all RSPs are governed by laws and regulations which provide for the establishment of outlets and the appointment of agents for remittance businesses to foster access to financial services. Most IGAD countries recognize non-bank RSPs as entities licensed by the central bank to transact remittances. They conduct inbound and outbound remittances and can partner with authorized international RSPs across the globe. However, there are challenges around licensing criteria and prudent supervision frameworks.

**Agents:** Individual IGAD countries have laws and regulations that permit the use of agents. The regulatory frameworks define activities that an agent may carry out and provide a framework to offer agency business services. However, some countries' regulatory regimes do not expressly prohibit exclusivity conditions.

## Infrastructure

Means for making payments in most IGAD countries include cash, cheques, debit and credit cards, prepaid cards, electronic funds transfers, online banking, and mobile wallets. The payment and settlement systems are classified into three broad areas:

**Systems operated by the central banks:** These include: (i) real-time gross settlement systems (RTGSs) for processing high-value and time-critical payment transactions; (ii) automated clearing house systems for processing interbank payments in which transactions are processed in batches; and (iii) central security depository systems for electronically clearing and settling transactions related to government securities. Some IGAD Member States are yet to put all these systems in place.

**Private sector systems:** They include domestic card switches, international payment networks, e-money providers such as mobile money service providers, e-commerce gateways, aggregators and integrators, and remittance service companies. There are several mobile money service providers in the region (MTN, Airtel, Safaricom Plc, Vodacom, Zain, Sudatel Group, Canar Communications, etc.) and state-owned telecommunications companies Ethio Telecom in Ethiopia and Djibouti Telecom in Djibouti. There are also payment switches in Kenya (visa and Kenswitch), Ethiopia (Ethswitch) and Uganda (Interswitch).

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<sup>25</sup> Source: Telecommunication authorities' annual reports.

**ATMs and POS:** Banking infrastructure comprises ATMs, POS and agent networks, but they are not very extensive, especially in rural areas. According to the International Monetary Fund's Financial Access Survey,<sup>26</sup> the average number of ATMs per 100,000 adults is 5.3 in the IGAD region, which is lower than the sub-Saharan African average of 6.08.

Transaction messaging is not standardized in IGAD countries. Most businesses rely on specific invoicing and receipting requirements for their internal reconciliations. Transaction notifications from different payment providers differ in the markets. There are various technologies used by payment system providers (PSPs), such as mobile push payments at POS, cardless cash withdrawals at ATMs, domestic card transaction payments, proximity near-field communication (NFC) payments, and NFC tag presentation and QR code<sup>27</sup> payments.

The payment systems, mobile money operators, and access points have limited domestic and international interoperability.

**National identification (ID) systems:** IGAD countries have multiple agencies issuing IDs that may be acceptable by banks and financial institutions. The agencies have fragmented databases and are neither interoperable nor harmonized. Such IDs include passports, national ID cards, citizenship identity documents, driving licences and birth certificates. Only passports are recognized beyond a country's domestic borders.

## Products

Most formal remittance transfers are handled over-the-counter by banks and non-bank RSPs using their access points. While remittances have long been disbursed as cash-outs, emerging partnerships between mobile money operators provide an opportunity to transfer remittances into digital wallets.

Although digital remittance models are gradually developing, significant efforts are required to reduce the costs of receiving remittances, expand the adoption of digital channels, and increase their uptake and their beneficiaries' digital and financial skills. Developing and implementing remittance-linked financial services and products could greatly help achieve these goals.

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<sup>26</sup> World Bank, 'Automated teller machines (ATMs) (per 100,000 adults) – Sub-Saharan Africa', <https://data.worldbank.org/indicator/FB.ATM.TOTL.P5?locations=ZG> (accessed on 21 July 2022).

<sup>27</sup> A type of barcode that stores information and can be read by a digital device, such as a mobile phone.

# THE HARMONIZATION CONCEPT

Harmonization for this project shall include all the processes by which policies and regulatory frameworks and standards related to remittances or payment infrastructures approved by different regulatory bodies establish similarity of processes and services or mutual understanding of the information provided according to these policies, regulations and standards or interoperability of payment infrastructures. The processes may include the application of similar or aligned laws, regulations, and standards, mutual recognition, and/or determining equivalence focusing on core issues in the areas of licensing and authorization regimes; electronic money, particularly mobile money; pay-out networks, particularly on agencies; customer onboarding particularly on risk-based know-your-customer (KYC); consumer protection; foreign exchange regulations and interoperability of payment infrastructure.

Harmonization helps remove unnecessary barriers to the establishment, licensing, and operations while simultaneously reducing duplication of regulatory efforts, enhancing transparency, fair competition, more choice for customers, and enhanced consumer protection. Overtly protectionist measures may limit the opportunities for access by foreign RSPs and hence result in barriers to cross-border payments in the region. Harmonization of remittance policies is geared towards addressing and balancing the barriers. **Figure 4** below shows the causes summarized from stakeholders' consultations and the consequences of unharmonized remittance policy and regulatory frameworks. Harmonization efforts aim to address the causes and provide solutions.

Fully harmonized policy and regulatory frameworks may not necessarily be the ultimate goal. IGAD countries can decide to go further after this level.

Figure 3: Harmonization Levels

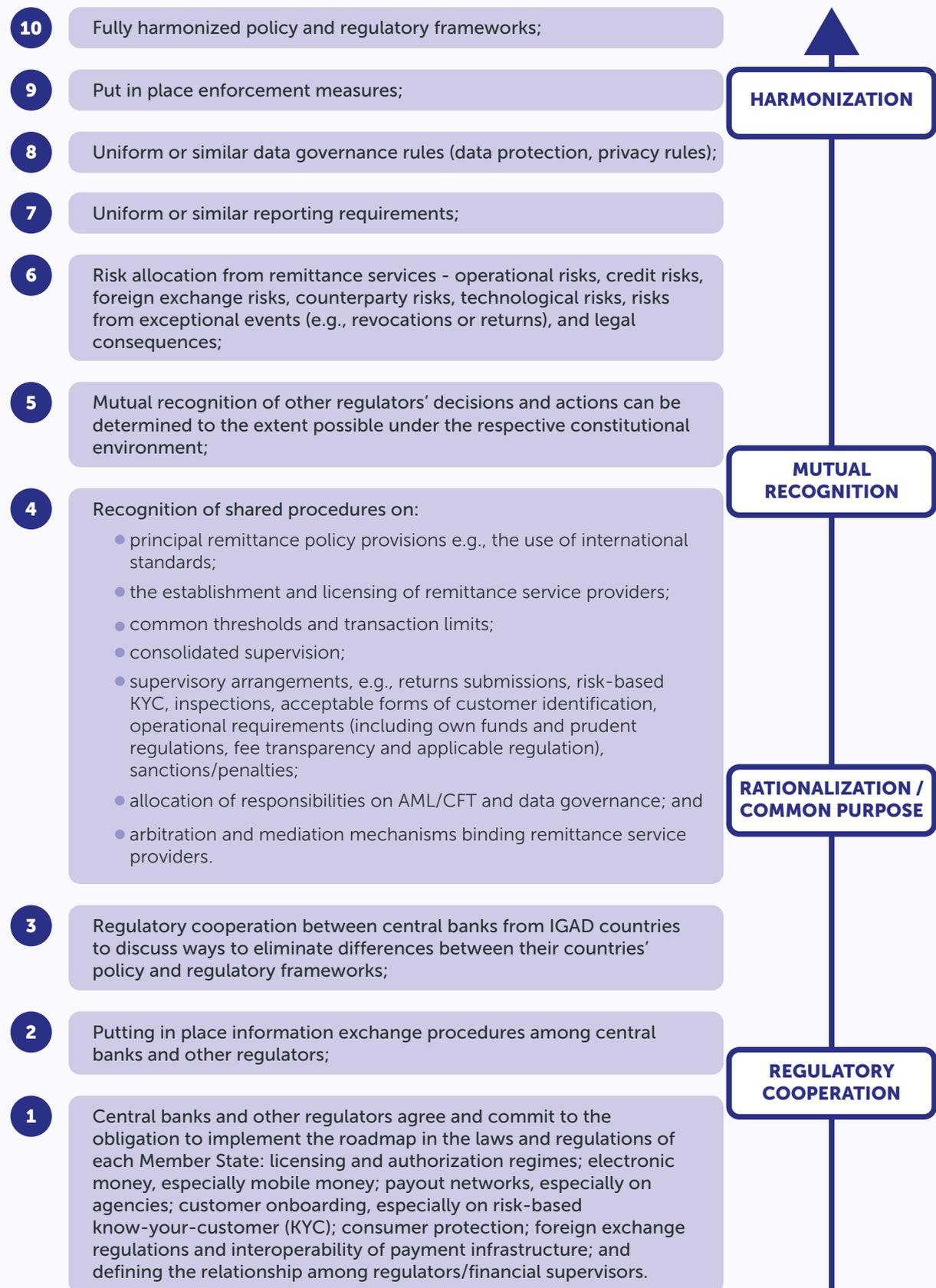
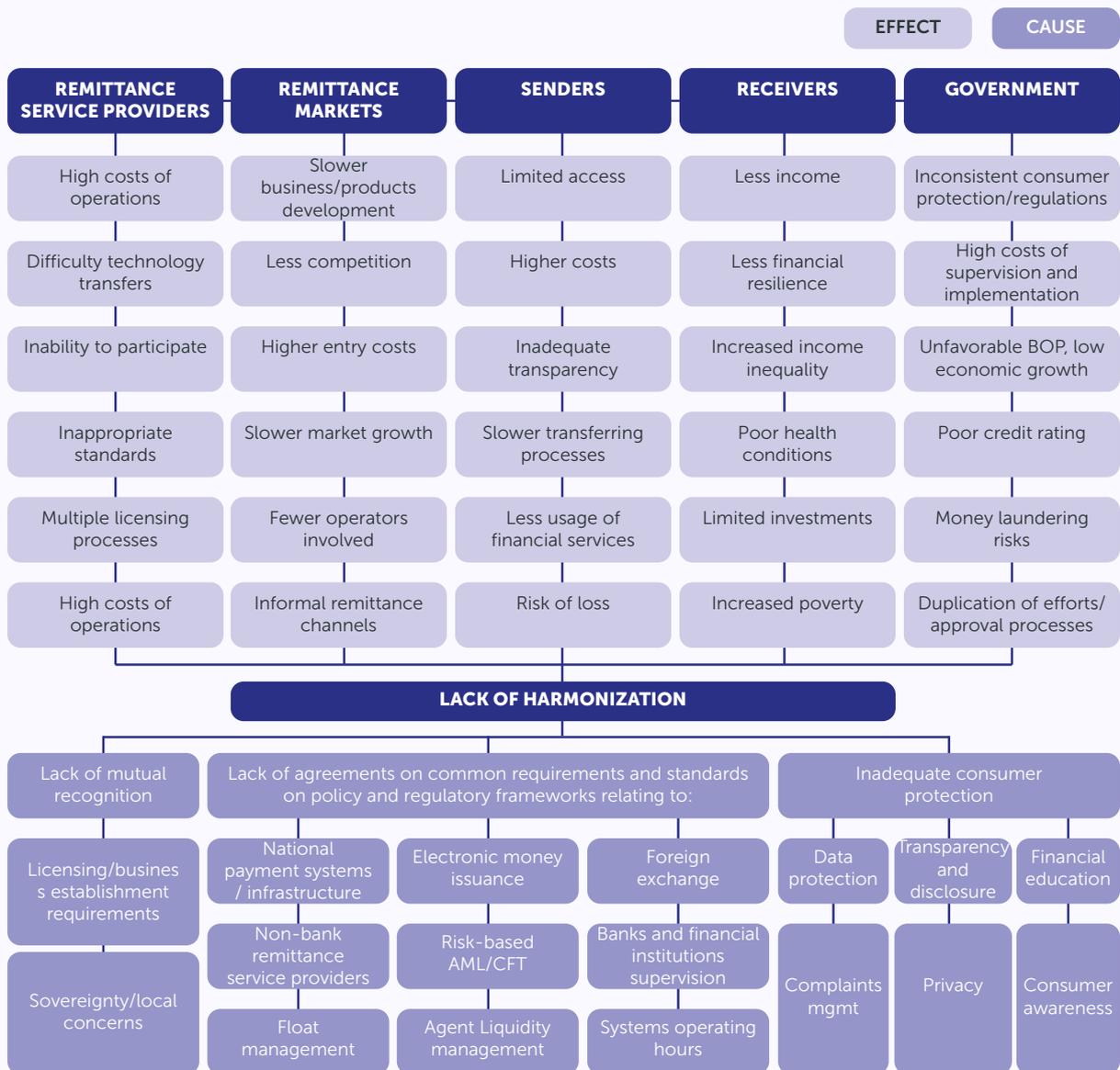


Figure 4: Summary of causes and consequences of lack of harmonized policy and regulatory frameworks relating to remittances



# ROAD MAP

The assessment and stakeholders' consultations have resulted in developing remittance-related enablers, inhibitors and recommendations for reform. Enablers are factors that contribute to the enhancement of remittance flows, while inhibitors are factors that restrict efficient remittance flows, and recommendations are options to improve the current enabling policy, regulatory and payment infrastructure environment to increase remittance flows. All of these have been categorized under five key areas:

- i. Legal and regulatory framework: This includes options for reform relating to authorities, roles, responsibilities and mechanisms for coordination, including legal and regulatory factors that support cross-border remittances.
- ii. Financial and payment system infrastructure: This includes options for reforming policies, standards and rules related to national payment systems, improving the network of access points, promoting access to interoperable systems and platforms, and establishing national ID systems that support e-ID and ID requirements adjusted on a risk basis.
- iii. Market practices: This includes options for reforms supporting cross-border remittances, especially on a foreign exchange regime that provides clear guidance and mechanisms to capture remittance-related data at the transaction level as well as data analysis and sharing.
- iv. Consumer protection: This includes options for reforms related to data protection, privacy and confidentiality for remittance-related data and relevant components of consumer protection laws that guide consumer protection and complaints resolution mechanisms for financial services, including cross-border remittances.
- v. Cooperation and collaboration: This includes recommendations on establishing mechanisms and processes to foster coordination between different stakeholders, including through memoranda of understanding and bilateral (or multilateral) agreements; public-private collaboration mechanisms on matters related to the development and implementation of cross-border remittance policies; harmonization of laws and regulations; and establishment of regional bodies to coordinate regional initiatives, and mechanisms for coordinating and implementing policy issues at the regional level. This aspect includes leverage and consistency with other regional and subregional instruments and institutions. The IGAD Member States form part of larger agreements/institutions concerning the movement of people (e.g., the East Africa Community (EAC)),<sup>28</sup> the Common Market for Eastern and Southern Africa (COMESA), and trade/finance (e.g., the African Continental Free Trade Area (ACFTA)). Both kinds of instruments highlight the importance of economic development as it relates to the labour movement and are linked to remittance policies.

Tables 1–5 present enablers, inhibitors, and recommendations for reform across the five domains: policy, legal and regulatory; infrastructure; market practices; consumer protection; and cooperation and collaboration.

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<sup>28</sup> The EAC has developed a framework and protocol related to the free movement of labour, which includes the issuance of EAC passports by its Member States to their nationals. The IGAD Regional Migration Policy Framework promotes the free movement of people and the establishment of residence for nationals within the IGAD region. This is further supported by its Protocol on the Free Movement of Persons and its Protocol on Transhumance. COMESA has adopted a visa regime and an Action Plan on Migration through its own Protocol on the Free Movement of Persons, Labour, Services, Rights of Establishment and Residence to accelerate economic development. EAC, COMESA and the African Continental Free Trade Area have trade agreements with related institutions which are of relevance to the financial and remittance sector.

**Table 1: Enablers, inhibitors and recommendations for reform of policy, legal and regulatory frameworks**

Enablers	Inhibitors	Recommendations	Priority
<p><b>Remittance policy:</b> IGAD recognizes that remittances are essential for migrant well-being and have development benefits for all Member States, including, in times of crisis, enhancing the resilience of communities to natural and human-induced shocks, such as drought and famine.</p>	<ul style="list-style-type: none"> <li>Lack of approved policies to guide decisions and achieve national objectives and outcomes for cross-border remittances. Some measures taken by IGAD countries individually have not been implemented collaboratively.</li> </ul>	<ul style="list-style-type: none"> <li><b>IGAD policy organs can agree on a model regional remittance policy</b> to be implemented by IGAD countries through the ministries responsible for finance and central banks and socialized by other relevant ministries, including labour, trade and foreign affairs. The main objective of the policy is to foster common interests and address common challenges relating to remittances in the region. Harmonized policies form a base on which legal and regulatory frameworks can be developed or improved to guide and oversee markets for the ultimate benefit of the vulnerable population and promote trade and enterprise.</li> <li><b>IGAD can also agree to establish a focal person from each Member State</b> whose main functions will be to coordinate, review and implement the regional remittance policy, discuss market trends and responses within the region and assist countries in benchmarking their national policies to promote remittances.</li> </ul>	<p><b>Short-term:</b> expected to be implemented in the next year</p>
<p><b>National payment system law and regulations:</b> IGAD countries have national payment system frameworks covered in stand-alone or central bank laws.</p>	<ul style="list-style-type: none"> <li>Limited direct participation of non-bank financial service providers in the payment systems provided by central banks, making them reliant on banks in service provision, despite holding a large share of customers' liquidity. The criteria for admitting applicants into the central banks' payment systems are stringent and such that all of them must be met. This has led to the inability of non-bank RSPs to meet them all. Therefore, the non-bank RSPs remain indirect participants supported by commercial banks. There have been requests from the market players to widen the space and scope for participants to join. The private non-banking sector comprises e-money providers such as mobile money providers, e-commerce gateways, aggregators, integrators, and other non-bank RSPs.</li> <li>Countries lack national payment switches that could facilitate interoperability and provide an efficient clearing and settlement platform of digital financial services transactions for all payment service providers with less cost.</li> <li>The payment and settlement systems have limitations in terms of operating hours and rely on batch processing. This does not support the target for 24/7 operations and instant payments and is thus more challenging when customers from different time zones are involved.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks without a stand-alone national payment system law may consider promulgating a separate payment system law</b> to provide a clear mandate on the role of the central bank as overseer of the national payment system.</li> <li><b>The criteria for admitting non-bank RSPs into the national payment systems operated by central banks can be amended to allow non-bank RSPs to provide services without necessarily partnering with banks.</b> Giving non-banks access to payment systems can improve the efficiency of the retail payments system by increasing competition, which can lower fees and broaden the set of alternatives open to end users. In addition, non-banks can contribute expertise that the banks lack and cooperate with banks to provide innovative services within the mobile payment space.</li> <li><b>Central banks can undertake policy changes in operating procedures and improve existing payment arrangements</b> to support the requirements of the cross-border payments market, aiming to attain STP and align processes and operating hours across systems.</li> <li><b>Central banks can consider introducing mutual recognition provisions in the NPS law.</b> A certain level of confidence may be placed in the partner States' regulatory regimes such that minimum requirements for operation and supervision are put in place to establish branches and subsidiaries from partner States. In this case, a licence issued by a central bank in one of the partner States is recognized by other partner States' supervisory authorities, and the licensed non-bank RSP can be allowed to operate in all partner States by simply notifying the supervisory authority of the host State. Supervision of the RSP can be mutually agreed upon among the IGAD Member States, with a preference toward home country supervision or joint home and host country supervision.</li> </ul>	<p><b>Short-term:</b> expected to be implemented in the next year</p>
<p><b>Electronic money issuance regulations:</b> IGAD countries have regulations for licensing and supervision of electronic money issuers' activities.</p>	<ul style="list-style-type: none"> <li>The available regulations lack standardized and transparent licensing criteria for international mobile money transfers—inward and outward—and the criteria for securing approval to connect new corridors.</li> <li>Differences in balance and transaction limits for mobile wallets for international and domestic transactions have been cited to limit electronic payments.</li> <li>The regulations lack risk-based transaction limits. The transaction limits per transaction, particularly for mobile money, are restrictive.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks can review the electronic money transfer regulations</b> to introduce standardized and transparent licensing criteria for international mobile money transfers (inward and outward), enhance the process for securing approval to connect new corridors, and revise and align daily, monthly or aggregate transaction limits. The regulations can be drafted to allow providers to receive general approval for the use of a transaction hub/platform, enabling them to save time when adding new remittance corridors by notifying the regulator of this intention without the need for a separate approval process for each new corridor. Where necessary, coherence between licensing/market access for mobile money operators under financial services commitments undertaken in trade agreements such as the African Continental Free Trade Area or the East African Community can be built on.</li> <li><b>Central banks can consider amending electronic money regulations</b> to introduce eligibility requirements for e-money issuers to allow tiered KYC requirements and associated transaction limits based on associated risk.</li> <li><b>Central banks can consider amending electronic money regulations to allow international fund transfers directly to mobile wallets</b> and to allow international partnership agreements to set transaction and balance limits on a case-by-case basis subject to regulatory approval.</li> </ul>	<p><b>Short-term:</b> expected to be implemented in the next year</p>

Enablers	Inhibitors	Recommendations	Priority
<p><b>Non-bank remittance service providers' regulations:</b> IGAD countries have provisions in various regulatory frameworks on remittance services offered by banks and non-bank RSPs.</p>	<ul style="list-style-type: none"> <li>Remittance service regulations that govern non-bank RSPs have limitations in terms of amounts, scope and enforcement mechanisms on consumer protection, transparency and disclosures.</li> <li>Remittance service regimes differ from one country to another in respect of providers, licence validity periods, licensing fees and capital requirements.</li> <li>The requirements for annual renewals are considered cumbersome, and some operators operate illegally for some time during the renewal process, as it may take more than three months to complete the renewal process. Immediately after obtaining a new licence, the RSPs begin worrying again about the following renewal process.</li> <li>The establishment of a non-bank RSP as a branch of a foreign RSP is not allowed. A legal person may only carry out remittance services with their head offices in the territory of their respective countries. This limits regional passporting or mutual recognition benefits. A lack of mutual recognition limits the RSPs' ease of entry.</li> <li>High initial minimum capital requirements of up to \$600,000 for non-bank RSPs may act as a bottleneck to establishing RSPs, particularly in rural areas where operations may not be profitable.</li> <li>Some countries lack a dedicated team to handle non-bank RSP supervision and monitoring.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks can consider adopting a consistent legal approach for licensing and authorization of non-bank RSPs.</b> Consider a regulatory framework based on proportionality that provides for the requirements for licensing, or procedures to obtain registration or approval for conducting remittance business, mode and scope of operations, consumer protection and dispute resolution mechanisms, market conduct, adequate disclosure, transparency, reporting requirements, handling of AML/CFT issues etc. In addition, they should put in place a dedicated team to support and guide non-bank RSPs.</li> <li><b>Central banks can consider introducing risk-based capital for non-bank RSPs in the regulatory frameworks based on risk and scope of operations.</b> Non-deposit-taking RSPs usually provide only a minority of a sender's overall payment needs. They thus do not require the application of heavy prudential requirements as a failure on the part of an RSP is unlikely to cause systemic risk.</li> <li><b>Central banks can consider introducing regulations on criteria for mutual recognition.</b> Where the NPS law does not prohibit mutual recognition, explicit provisions can be introduced under non-bank RSPs regulations and criteria for mutual recognition.</li> <li><b>Non-bank money remittance regulations can be amended to discourage exclusivity conditions explicitly.</b> A principal should be explicitly discouraged from restricting its agents to offering other remittance services to allow wider choices and eliminate monopolies where financial infrastructure may be relatively underdeveloped, particularly in rural areas. Agent networks are critical in linking providers and customers. There should be room for a universal agent model for bank and mobile money users through an interoperable agent network platform.</li> </ul>	<p><b>Short-term:</b> expected to be implemented in the next year</p>
<p><b>AML/CFT laws and regulations:</b> IGAD countries have AML/CFT laws that specify rules and procedures for AML/CFT and conditions for conducting KYC for cross-border remittances. The countries have also committed to implementing the Financial Action Task Force (FATF) recommendations and standards.</p>	<ul style="list-style-type: none"> <li>The laws recognize the need for risk-based KYC/CDD, but there are no guidelines for CDD proportional to the specific risks of the remittance services. RSPs, therefore, do not practice risk-based CDD/KYC.</li> <li>In addition, customers consider the information required from the senders/receivers and steps for performing an online transaction too long. Customers struggle even for an unstructured Supplementary Service Data (USSD) transaction and sometimes get timed out.</li> <li>There is also a lack of proportionate risk management levels that can help to avoid placing barriers to new entrants or unwarranted burden on lower-risk RSPs and remittance activities.</li> <li>Money transfer operators (MTO) have challenges accessing banking services due to AML/CFT laws. The excess money accumulated during the day is difficult to bank in the evening because banks reject it because of AML/CFT compliance requirements.</li> <li>There are no established guidelines for e-KYC.</li> <li>Different regulatory frameworks govern the use of national IDs including requiring the use of the ID for account opening purposes.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks can introduce guidelines for proportionate KYC</b> to implement existing AML/CFT laws on risk-based customer due diligence so that the market players do not place an unwarranted burden on lower-risk RSPs. Consider guidelines to clarify that compliance with AML/CTF obligations in the law does not require financial institutions to refuse, or terminate, business relationships with entire categories of customers that they consider to present a higher overall risk of money laundering/financing of terrorism.</li> <li><b>The guidelines can introduce provisions for rolling out the e-KYC functionality to all banking and non-banking institutions in remittances.</b> The e-KYC provisions can be one of the ways to help migrants and their families open bank accounts remotely in their home countries.</li> <li><b>In addition, the guidelines can provide for outreach and education for risks covered under AML/CFT regulatory frameworks.</b> The outreach and educational programmes should raise awareness among the entities and the broader community of the risks associated with money laundering and the financing of terrorism and proliferation and avoid prohibitive implementation of some legal clauses.</li> <li><b>Central banks can simplify account-opening procedures.</b> Consider account-opening requirements that are not prohibitive. For example, requiring a customer to show proof of employment and source(s) of income may be a disincentive for self-employed individuals in the informal sector.</li> <li><b>The guidelines can further introduce provisions for mutual recognition of IDs for KYC purposes.</b></li> <li><b>The accounts opening procedures, including the requirements thereof, can solely be vested under the central banks</b> as the regulators of the financial sector to avoid possible inconsistencies. The central banks can, from time to time, consider other means of identification for different persons for conducting different financial transactions.</li> </ul>	<p><b>Short-term:</b> expected to be implemented in the next year</p>

Enablers	Inhibitors	Recommendations	Priority
<p><b>Regulatory framework for fintechs:</b> fintechs in the payment space are increasing in the financial sector within the region. Some of the countries have some guidance on the operations of fintechs.</p>	<ul style="list-style-type: none"> <li>The lack of regulatory frameworks that allow market participants to test new financial services or business models with live customers, subject to certain safeguards and oversight, supports digital innovations and fintechs.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks can consider putting in place regulatory sandboxes to encourage market entry.</b> This regulatory and authorization framework continues to support experimentation, test and learn and deployment processes. It is a temporary experiment with innovative financial products, services, business models, or delivery mechanisms in the payment systems ecosystem. This framework can provide a conducive environment for innovation in payment services while ensuring that consumer protection and public interest are upheld. The aim is to introduce new service offerings targeting fintechs, innovation among existing RSPs and, subject to a detailed review, consider the need to widen the scope of players that can be authorized to participate in the national payment systems' ecosystem to increase competition and choice.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in the next 2–3 years</p>
<p><b>Foreign exchange law and regulations:</b> IGAD countries have regulatory frameworks that guide the determination of exchange rates and handling of foreign currency emanating from cross-border payments.</p>	<ul style="list-style-type: none"> <li>Some restrictions on exchange rates exist, causing parallel exchange markets—i.e., formal and informal markets. As a result, there is a gap between the official and informal exchange rates. This, in turn, encourages remittances through unregulated channels with unpredictable exchange rates, which present risks to both consumers and the financial system.</li> <li>Local currency volatility and rapid fluctuations against foreign currencies also encourage the uptake of informal remittance channels.</li> <li>The lack of robust monetary policy has caused local currency to be very volatile and fluctuate rapidly against foreign currencies.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks can consider allowing market-driven exchange rates</b> while remaining on top by dealing with the formulation of sound monetary policies that will stabilize local currencies. These measures may encourage the flow of remittances through formal and regulated channels, new services, and remittance products from market operators.</li> </ul>	<p><b>Long-term:</b> expected to be implemented in 3 or more years</p>
<p><b>Microfinance regulation:</b> Some of the IGAD countries have microfinance laws and regulations.</p>	<ul style="list-style-type: none"> <li>The microfinance laws and regulations do not support collaboration between RSPs and MFI outlets to terminate international remittances.</li> <li>The laws and regulations do not allow MFIs to use microfinance licences to transfer money beyond country borders.</li> <li>There is no microfinance regulation in place in some countries.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks can consider a microfinance regulatory framework that encourages and enables non-banks RSPs to partner with MFIs</b> to leverage the MFIs' existing distribution networks while taking advantage of the existing payment infrastructure to extend networks into and across rural and peri-urban areas for enhanced distribution channels for inward remittances.</li> <li>For countries without an MFI regulatory framework, there is a need to promulgate a legal framework to provide for the licensing, regulation, and supervision of microfinance businesses and allow them to handle international remittances.</li> </ul>	<p><b>Long-term:</b> expected to be implemented in 3 or more years</p>
<p><b>Agent regulation/ guideline:</b> The existence of electronic money regulations that allow e-money service providers to appoint business entities and/or individuals on a contractual basis to support activities such as registering customers, accepting and dispensing cash, making payments and effecting funds transfers.</p>	<ul style="list-style-type: none"> <li>Lack of agent regulations.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks may consider introducing standalone agent regulations.</b> The regulations can allow universal agent categorization. Universal agent categorization can be provided in the regulations to identify efficient cash-in and cash-out services across all RSPs. Agents are critical in linking remittance service providers and customers. There can be room for a universal agent model for bank and mobile money users through an interoperable agent network platform.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in the next 2–3 years</p>

Table 2: Enablers, inhibitors and recommendations for reform of payment infrastructure

Enablers	Inhibitors	Recommendations	Priority
<p>Mobile financial services (MFS), or mobile money, is a trusted channel for receiving remittances because of the convenience, speed, security and reduced cost.</p>	<ul style="list-style-type: none"> <li>• Mobile money providers face several challenges, including inadequate interoperability, network coverage, availability, power and security.</li> <li>• Implementing separate infrastructure to cater for MFS from other retail payments presents additional or duplicate costs.</li> <li>• Maintenance costs of the separate infrastructure increase recurring costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Central banks can consider having integrated payment infrastructure interoperable with mobile network operations.</li> <li>• Consider facilitating mobile money providers to work together to reduce the cost of improving the infrastructure. An example is shared telecommunications infrastructure.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in 3 or more years</p>
<p>IGAD countries have banking networks and access points, including ATMs, POS and agents.</p>	<ul style="list-style-type: none"> <li>• The distribution of access points in the banking network is concentrated in urban areas, creating access problems in areas that are geographically far from urban areas.</li> <li>• Banking institutions face infrastructure challenges in rural settings, such as inadequate power, network coverage and security.</li> <li>• There are inadequate retail payment systems<sup>29</sup> that would enhance cross-border links between the domestic payment arrangements, hence overdependence on correspondent banking.</li> <li>• Payment and settlement systems such as RTGS are not integrated within the IGAD region.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Central banks can improve the payment infrastructures by developing retail payment systems that cover wide geographical areas.</b> This can reduce risks and costs associated with using cash and cheques and support the central banks' interest in achieving financial inclusion for all geographic regions and income groups.</li> <li>• <b>Central banks can consider integrating the RTGS systems and other retail payment systems.</b> Remittances will be efficient and function well when the RTGS, retail payment, and settlement systems are well integrated.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in 3 or more years</p>
<p>Interoperability of card-based and mobile-based transactions exists through bilateral arrangements. Banks, MFIs and PSPs connect bilaterally for push and/or pull services between wallets and accounts. Settlement takes place between the banks/ settlement banks of both entities.</p>	<ul style="list-style-type: none"> <li>• Payment processing takes a long time due to a lack of standardization of transaction messaging. Transaction notifications from different payment providers differ in the market, making it difficult for businesses to reconcile the payments. Other challenges faced by payment messaging standards include the use of 'free-format' fields to convey supporting information, limiting the extent of data collection in a standard format and performing contextual analysis. Different standardisation formats result in technical failures, loss of information and non-standardized reporting, and different applications, resources and skillsets are needed to support various messaging standards. All these have a direct impact on costs incurred by RSPs.</li> <li>• A lack of open and secure Application Programming Interfaces (APIs)<sup>30</sup> means that dominant players maintain their market position at the expense of smaller players. There are no industry-wide standard open API arrangements. This has the effect of entrenching prominent participants and excluding small participants. The opening of APIs has been bilateral among service providers, limiting competition, innovation and choice. Mobile payment service providers are yet to fully open access to their APIs with the intent of opening up the industry. This limits innovation and the ability of new products to be rolled out at scale and affordably.</li> <li>• The lack of interoperability among RSPs within and between countries has increased the complexity, time and costs associated with making payments. For example, off-us POS pricing is higher. This has been caused by the proliferation of different closed-loop infrastructure, systems and payment channels. A lack of interoperability between different RSPs means that businesses require multiple devices for multiple channels. An example of this includes mobile money and bank agents that require multiple handsets, POS devices and separate virtual floats for each PSP.</li> <li>• Due to a lack of interoperability, users require multiple PINs for payment accounts. Managing multiple PINs and passwords for different payment platforms can be cumbersome for consumers. Similarly, managing the process of retrieving PINs and passwords if forgotten can also be a challenge. All this is due to a lack of integrated payments services, secure data-sharing, and open architecture for identification and authentication.</li> <li>• The lack of interoperability in the mobile money merchant acceptance space also limits payment options available to consumers. Examples of different technologies within the markets include: <ul style="list-style-type: none"> <li>» Mobile push payments at POS: Mobile push payments at POS are not standardized across the industry. Therefore, until numbers and pay bill numbers from one service provider to another are restricted only to users of that one payment service network.</li> <li>» Cardless cash withdrawals: Cardless cash withdrawals depend on a specific bank implementing a custom process for its own ATMs or a switch operator implementing the process on a network under its control.</li> <li>» Domestic card transaction payments: There are different standard-compliant card schemes. A particular card transaction payment is limited to the systems of the members of each switch. They do not interoperate with each other's switch networks, even though it is technically possible.</li> <li>» Proximity NFC payments: For NFC contactless cards and mobile device NFC currently issued by isolated participants, there are no industry-wide or region-wide agreements on standards or the roll-out of functionality.</li> <li>» NFC tag presentation: There is no standardization of NFC tags across the industry, making the industry-wide use of tags and optimal use of the acquiring infrastructure unfeasible. For example, those used by mobile money operators cannot be read by bank NFC readers.</li> <li>» QR code payments: QR code-initiated transactions, using either a merchant QR code or a customer QR code, are currently issued by isolated participants.</li> </ul> </li> <li>• Most PSPs in IGAD countries have bilateral agreements, but the technical and operational costs are higher than for a single integration due to settlement delays and liquidity management inefficiencies.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Central banks can consider issuing guidelines on improving transaction infrastructures</b> through adopting common and internationally agreed standards for messaging (ISO 20022), adopting common equipment and software standards to allow interoperability at POS among competing networks and supporting interconnectivity among the proprietary networks for handling transactions. Standardized formats could do much to enable RSPs to process payment instructions without requiring expensive manual intervention.</li> <li>• <b>Central banks can consider introducing guidelines to harmonize API protocols</b> for data exchange across payment infrastructures to enable more efficient payment data and digital identifier exchange in cross-border payments. This could help improve coverage and reduce the effective cost to end users of remittance services.</li> <li>• <b>The guidelines could encourage technology providers to provide standard APIs</b> to enable other players to develop interoperable applications.</li> <li>• <b>Consider establishing a national switch</b> to help the non-bank RSPs access the payment systems through the switches.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in 3 or more years</p>

<sup>29</sup> Retail payments are typically payments between consumers, businesses and public authorities without physical presence at the POS, such as via the Internet or a telephone or mobile phone. They can be everyday consumer transactions but also include, for example, salary and tax payments made by businesses. These retail payments may involve the use of various retail payment instruments or access devices (e.g., prepaid cards, contactless debit and credit cards, and other contactless devices such as key fobs, mobile phones etc.).

<sup>30</sup> A software intermediary that allows two applications to talk to each other

Enablers	Inhibitors	Recommendations	Priority
<p>IGAD countries have multiple payment channels such as cheques, debit and credit cards, prepaid cards, electronic funds transfers, online banking and mobile wallets.</p>	<ul style="list-style-type: none"> <li>• Fraud, especially among first-time users, makes them vulnerable to criminals who conduct their illegal activities through socially engineered fraud, SIM card swaps and other means, undermining formal payment channel usage rates.</li> <li>• Cyber-attacks on payment systems significantly threaten large, retail and cross-border systems. A lack of harmonized and coordinated cyber reporting undermines collective efforts to put sufficient safeguards in place.</li> <li>• System failures and channel downtimes associated with digital payment instruments cause delayed payments and thus affect consumers' willingness to use digital payment services, increasing the dominance of cash, especially for low-value payments. Users lack adequate assurance that payments will reach the intended recipients at the right time, reducing their willingness to use digital payment services.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Central banks can agree on a harmonized and coordinated cyber reporting framework</b> as the first step for collective efforts and sharing of experiences necessary for putting sufficient safeguards in place. A standard security framework (ISO/IEC 27001) can be adopted. Issues of cyber-security and cyber-resilience around payments can be appropriately addressed, specifically indicating who should oversee insecure USSD channels; who should be notified of breaches in USSD, when, and responses to it; who is ultimately responsible for any loss of consumer funds because of such breaches; and who should handle any consumer complaints where USSD-based breaches result in loss of consumer funds. Infrastructure security, particularly the roles and responsibilities of those who transmit and hold data, should be addressed appropriately.</li> <li>• <b>Central banks can consider introducing guidelines for business continuity plans.</b> The guidelines should also make business continuity plans mandatory for all RSPs. This includes requiring RSPs to put in place appropriate governance and risk management practices to improve the safety and soundness of remittance services and help protect consumers.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in the next 2–3 years</p>
<p>IGAD countries have various forms of IDs that are acceptable for account opening, such as national IDs, driving licences, passports, voter registration cards, local authorities' IDs/ letters etc.</p>	<ul style="list-style-type: none"> <li>• The lack of standard ID cards makes it costly for customers to open accounts and use financial services because ID is a significant prerequisite for gaining access to digital forms of payment. The inability to promptly, correctly and cost-effectively confirm the identity of a beneficiary causes delays and increases costs. IGAD countries have fragmented databases maintained by multiple agencies such as migration and police departments, local governments, electoral commissions and national ID authorities. Moreover, ID cards do not follow a standard format, and some lack security features.</li> <li>• The proportion of the eligible population with ID cards is small.</li> <li>• Many women and men migrants cannot access national IDs from the embassies abroad. This inhibits their capacity to open accounts back home.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Harmonizing standard KYC requirements</b> such as ID cards can reduce the risks and costs associated with integrating the multiple identity management systems within the Member States. This also harmonizes cross-border integration initiatives between the Member States. Digital ID is paramount to increasing the adoption of formal financial services. Identifying specific policy interventions to boost implementation and use of digital ID is critical to its role as an enabler for remittance services, as it supports effective identification and onboarding of customers and user segments, facilitates authentication and verification of cross-border transactions, supports successful AML/CFT supervision of cross-border transactions, and expands the digital footprint of the underbanked to enable their access to a broader range of financial services. Where necessary, regulatory provisions related to privacy, data protection etc., should be put in place.</li> <li>• <b>Integrate ID systems with the payment infrastructure.</b> Once the ID system is improved, the payment infrastructure should also be enhanced to integrate with digital ID systems. Access to KYC information will play a significant role in lowering customers' risk perception and reducing the cost of compliance.</li> <li>• <b>National ID issuing authorities may delegate the ID issuance task</b> to the consulates for the women and men living outside their countries of origin.</li> <li>• <b>ID issuing authorities may consider online capturing of information/data/individuals</b> from the women and men living outside their countries of origin to produce national IDs for them.</li> </ul>	<p><b>Long-term:</b> expected to be implemented in 3 or more years</p>

Table 3: Enablers, inhibitors and recommendations for reform of market practices

Enablers	Inhibitors	Recommendations	Priority
<p>Authorities in IGAD countries consider financial/digital literacy key to the financial inclusion agenda, and relevant financial literacy programmes have been implemented.</p> <p>Some countries have developed financial inclusion strategies that consider the need to deepen financial and digital literacy.</p>	<ul style="list-style-type: none"> <li>Limited consumer awareness and financial/digital literacy programmes for migrants and their families customized to their specific interests, needs, language and habits. This limits the accessibility of remittance services. The low levels of financial literacy are further exacerbated by the steps to effect payments, thereby inhibiting the use of digital payment services.</li> <li>Migrants consider that the information collected from the senders and receivers during international mobile money/remittances transactions is too much, making the process lengthy and complex for digitally challenged migrants to follow through.</li> <li>RSPs lack knowledge about the market, such as the size and profile of the market in key corridors. With little knowledge, they may regard remittances as unattractive because senders typically have relatively low incomes.</li> <li>The ministries of foreign affairs do not have complete and reliable statistics on migrants from their countries. Specifically, they lack information concerning primary destination countries, the number of men and women migrants, trends within a given period, marital status, education, skills, occupation/sector and gender.</li> <li>Migrants lack knowledge of suitable investments available in their countries of origin. The main priority of most migrants is to buy a piece of land.</li> <li>Migrants tend to shy away from embassies and consulates for various reasons. Furthermore, migrants engaged in jobs that they would consider unworthy or indecent based on their home cultural settings, do not cooperate with relevant authorities, and there is hesitance in sharing data, their whereabouts and information, including those required for KYC and statistical purposes.</li> </ul>	<ul style="list-style-type: none"> <li><b>The ministries responsible for foreign affairs</b> can play a more significant role by communicating with the diaspora and associations of migrants, on the one hand, and the administrations involved in fostering investment in the country, on the other hand. They should also liaise with RSPs of interest in their country to promote financial literacy courses. This can be done by creating a position of liaison office or diaspora services department within the ministries.</li> <li><b>Consider preparing programmes for public education and awareness</b>, particularly for migrants. The education seminars should map the customer journey—such as the steps involved in sending remittances, the pre-departure opening of a bank account and/or mobile wallet to be used by the receiver of the remittances, electronic card security and liability features such as safety, practicality and ease of use, and available financial products. The education and awareness initiative should involve the central banks, informing how various payment mechanisms and products can be easily accessed.</li> <li><b>The education programme can include awareness of the available investment opportunities</b> in the home countries for a smooth and safe return. The ministries can team up with remittance services providers in these efforts.</li> <li><b>Consider coordinating with embassies and consulates so that they help develop databases</b> including names, jobs and contacts. Online communication and virtual meetings can be organized, allowing proximity with the diaspora to be strengthened in the long-term and better knowledge of their concerns and expectations. Networking with non-governmental organizations and associations of migrants abroad will ensure better channelling of remittances to productive projects in their home countries.</li> <li><b>Consider developing online tools.</b> This makes it possible to network diaspora skills abroad, leveraging them for advice and expertise on sending remittances to their home countries.</li> <li><b>Consider encouraging the entry of new operators into the remittance space.</b> One of the easiest ways to lower transaction costs is to encourage the entry of new legitimate operators in a given corridor and to inform diaspora members about their ability to choose among existing remittance transfer mechanisms. This facilitates increased competition among RSPs, thereby improving efficiency and lowering costs. See Annexe 3 for benchmarking case studies.</li> <li><b>Model outreach guidelines or financial/digital literacy tools could be developed</b> to outline elements that ministries responsible for foreign affairs can consider in their outreach efforts.</li> <li><b>Education on cultural issues</b> can also be provided to the migrants for smooth integration and cooperation with consulates.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in the next 2–3 years</p>

Enablers	Inhibitors	Recommendations	Priority
<p>Financial markets have competing service providers with access points such as mobile phones, other electronic/digital devices, and transaction points (cash-in/cash-out agents, online/offline payment points, branches, etc.).</p>	<ul style="list-style-type: none"> <li>Limited competition for merchant acceptance in the mobile money space. This is also due to the limited acceptance of competitor payment instruments.</li> <li>Additional payment streams and channels provide viable choices, but these tend to be costly and out of reach for most consumers. For example, off-us ATM pricing is very high for most banks. In addition, consumers cannot migrate their payment history from one payment provider to another. Individuals are bound to incumbent providers – even when cheaper options exist – as the cost of building a new history with another payment service provider is costly and time-consuming.</li> <li>RSPs typically focus on providing traditional incentives to drive the market, such as gifts, credit extensions, rewards for opening diaspora accounts etc. These are primarily non-innovation motivators and do not consider demand-side perspectives.</li> </ul>	<ul style="list-style-type: none"> <li><b>Central banks may encourage institutions with extensive branch and agent networks or de facto local monopolies</b> (e.g., post offices, major retailers) to apply for licences to offer multiple services, including remittance services.</li> <li><b>Consider promoting e-payments to reduce transactional costs to consumers of financial services.</b> Government ministries, departments and agencies can also encourage citizens to pay the government electronically for their taxes, social security contributions and loan payments, health insurance contributions and licences (driving licences, business licences etc.). This can introduce and sustain the unbanked in mainstream banking or regulated systems, which can drive down operational costs to operators and, ultimately, reduce transactional costs to consumers of financial services, including migrants. Annexe 2 contains case studies on the promotion of e-payments.</li> <li><b>To further entice the use of electronic payments, an incentive/reward system can be adopted.</b> Rewards and incentives can effectively attract migrants or convince existing customers to use a specific payment instrument for their purchases and borrowing. Some reward schemes that could foster financial inclusion among migrants include rewards for using cards and other electronic means of payment.</li> <li><b>Central banks can consider maintaining information on their websites that compares the transaction costs</b> charged by various RSPs, to increase transparency and competition. Central bank involvement and support will increase diaspora members' trust in formal channels. See Annexe 2 for benchmarking case studies. IGAD can also consider developing an online tool that enables remittance corridor price comparisons, fed into by the respective central banks, and provides some degree of financial/digital literacy.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in the next 2–3 years</p>
<p>Existence of consulates in major remittance-sending corridors.</p>	<ul style="list-style-type: none"> <li>Migrants generally have difficulty accessing many financial services in their destination country since they do not necessarily have the documentation that RSPs require.</li> <li>Account opening while abroad is difficult. Migrants use next of kin accounts. But there have been incidences of them losing their money from unfaithful relatives.</li> </ul>	<ul style="list-style-type: none"> <li><b>The ministries responsible for foreign affairs can consider issuing consular ID cards to migrants</b>, especially those who do not necessarily have the documentation RSPs require, so that they can use formal remittance channels. Such cards may encourage migrants (regardless of immigration status) to use formal remittance services and open bank accounts. In this endeavour, cooperation with the destination government is critical so that banks and government offices may accept the cards. See Annexe 3 for examples of consular cards issued by other countries.</li> <li><b>Central banks can permit online bank account opening using consular ID cards.</b> From the outset, migrants could be issued a consular ID card by the Ministry of Foreign Affairs, approved by the central bank, and deemed compliant with national rules and regulations. The central banks should require that each migrant opens a domestic bank account, which facilitates monitoring of financial practices and prevents illegal activities. Online bank account opening could be permitted using these consular cards without any additional ID.</li> <li><b>Consulates can be used to establish KYC for migrants for financial services purposes.</b> These consulates have the infrastructure to issue passports. These can be used for KYC purposes as well.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in the next 2–3 years</p>
<p>Existence of some partnership arrangements between banks and international money remittance agents to allow inflow of remittances.</p>	<ul style="list-style-type: none"> <li>Inadequate migrant-centric products—i.e., products that are attractive to migrants—for them to be motivated to send money home. The lack of migrant-centric products results in low uptake and use of digital remittance services.</li> </ul>	<ul style="list-style-type: none"> <li><b>Consider adopting a broader view of how to leverage financing for development through remittances by designing varieties of appropriate products</b> that will attract migrants. Migrants' direct investment is potentially valuable.</li> <li><b>Financial institutions should also develop a broader range of investment products targeting diaspora investors</b>, such as basic low-cost payment accounts and services for retail clients, diaspora micro-saving bonds, endowment accounts, pension schemes and insurance policies, which could then be used for remittances.</li> </ul>	<p><b>Short-term:</b> expected to be implemented in the next year</p>

Enablers	Inhibitors	Recommendations	Priority
<p>Central banks collect and compile data on the balance of payments, including those related to remittances, through formal channels. IGAD countries recognize the importance of timely, disaggregated and harmonized remittance data to inform effective policies. The central banks have standard return formats that reporting entities are supposed to populate and submit to the central bank every month. This data is used for compilations of the Balance of Payment (BOP).</p>	<ul style="list-style-type: none"> <li>Remittance data are unavailable or incomplete. The data collection mechanisms/systems on remittances cannot capture transaction level or disaggregated data on remittances. The data is aggregated and has no details such as the sender's identity, amount, sex, etc. More insights on remittances are obtained from annual surveys with the recipients to know the sender's country, biodata, volume, frequency, channel, challenges, use of the remittances, etc. However, the survey is conducted only once a year.</li> <li>Limited or no collection or estimation of data on remittances sent or received via informal channels.</li> </ul>	<ul style="list-style-type: none"> <li><b>Consider developing a reporting system</b> to collect, analyze, monitor and use remittance data. Reliable data on remittances are essential for enhancing the accuracy and completeness of balance of payments data, managing AML/CFT compliance issues, understanding the true impact of remittances on the economy and forming more effective policies for managing remittances, including policies to incentivize their contribution to the economy. Remittance data collection, analysis, monitoring and use are essential for decision-making processes relating to remittance services.</li> </ul> <p>The IGAD Member States could continue collaborating to ensure the progress of efforts to harmonize migration data and establish platforms.</p> <p>At a later stage, consideration could be given to working with national statistics offices, and related ministries (e.g., trade, investment, labour and foreign affairs) to develop a more nuanced understanding of remittance receipts and uses, including by administering surveys.</p> <p>Efforts should also be made to understand the scope, usage and impact of informal remittances on the domestic economy.</p>	<p><b>Medium-term:</b> expected to be implemented in the next 2–3 years</p>
<p>The existence of a central bank or market determined foreign exchange rates.</p>	<ul style="list-style-type: none"> <li>For the markets determined exchange rates, the legislations are silent on disclosure of applicable exchange rates used by RSPs.</li> </ul>	<ul style="list-style-type: none"> <li><b>The industry could be encouraged to agree on a standard reference exchange rate</b> (e.g., the interbank market rate at a particular time of day) to be used as a basis for calculating the price of a remittance service. The cost of sending money could then be quoted as a total price that includes both the explicit fees/costs and the effect of any difference between the reference exchange rate and the actual exchange rate of the RSP. This would make it easier for senders to compare services.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in the next 2 to 3 years</p>

Table 4: Enablers, inhibitors and recommendations for reform of consumer protection frameworks

Enablers	Inhibitors	Recommendations	Priority
<p>There are provisions in various laws aiming to protect consumers from misleading market practices and harmful goods and services.</p>	<ul style="list-style-type: none"> <li>• There is a lack of a harmonized financial consumer protection framework to ensure that data and money are secure during cross-border transactions.</li> <li>• Financial consumer protection issues include unexpected charges, high prices and tariffs for some payment services, and a lack of disclosure of the total price, service speed, and exchange rates. Exchange rates can also vary significantly from day to day.</li> <li>• Charges and fees are quoted in percentages, which requires customers to perform calculations that may be difficult for an average consumer. This increases the lack of transparency in tariff-setting practices among RSPs, particularly for less financially literate clients, and thus affects customers' willingness to use formal remittance channels.</li> <li>• There is a fragmented legal framework, i.e., some laws and regulations include provisions on complaint-handling mechanisms, but applicability and enforcement are unclear due to overlapping legal mandates of different financial consumer protection authorities.</li> <li>• In some instances, intermediary banks hold onto funds before forwarding them, creating a 'float'. This is caused by a lack of liquidity provision to the disbursing agent; therefore, payments to the final consumer depend on both messaging and settlement speed.</li> <li>• Consumers cannot migrate their payment history from one payment provider to another. Individuals are bound to incumbent providers—even when cheaper options exist—as the cost of building a new history with another payment provider is costly and time-consuming.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>IGAD central banks could develop a harmonized financial consumer protection framework</b> through regional guidelines to ensure that data and money are secured and to foster consumer trust and confidence. These guidelines, which would apply to all RSPs licensed, registered and supervised by the corresponding authorities, would protect and empower senders and recipients of remittances, especially in the key areas of (i) cyber-security; (ii) data protection and privacy; (iii) complaints management; (iv) transparency and disclosure; (v) float and agent liquidity management; and (vi) financial education and customer awareness.             <ul style="list-style-type: none"> <li>» <b>Cyber-security:</b> Cyber-security policies will protect both users and data, thereby enabling users to enjoy frictionless and safe money transactions.</li> <li>» <b>Data protection and privacy:</b> Legal frameworks can clarify and strengthen data protection regulation, especially from financial and payment data perspectives. This should include how financial, payment and other digital payment data are collected, held, stored, accessed and shared, ownership and intellectual property rights considerations, if any, and the kind of consumer consents and protections needed. The overall objective should ensure that payment data are used safely and securely to enhance users' privacy and customer-centricity.</li> <li>» <b>Complaints management:</b> The guidelines can provide complaint-handling mechanisms and refund procedures. Guidelines should require RSPs to develop a complaints management plan, including establishing a separate unit responsible for digital finance and remittance payments. Guidelines should require RSPs to establish a manual of operations that clearly explains how consumer complaints are addressed and reported, with clear responsibilities for each step of the process and appropriate communication channels to address inquiries and complaints from digital finance and remittance consumers. If the complaints are not resolved to the customer's satisfaction, an out-of-court alternative dispute resolution mechanism can provide further options for recourse.</li> <li>» <b>Transparency and disclosure:</b> The guidelines could require proper disclosure at the advertising, shopping, pre-contractual and contractual stages (and on request). Principle 3 of the G-20 High Level Principles on Financial Consumer Protection states that "all financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers". Guidelines should also require RSPs to provide information about any other relevant aspects of their service, such as: (i) the ability, if any, of the sender to revoke the transfer after it has been paid for; (ii) whether the RSP will inform the receiver when the funds are available; (iii) information about the rights of the consumer in the event of any problems (e.g., dispute or error resolution); (iv) the customer's ability to transfer products or services to another provider with reasonable notice; and (v) contact information.</li> <li>» <b>Float and agent liquidity management:</b> The guidelines can also consider introducing a code of conduct on float management because this is an implicit charge. Its effect is that the remittance service is slower, and the intermediary entity earns interest income from the funds.</li> <li>» <b>Financial education and customer awareness:</b> RSPs could establish financial education programmes for remittance consumers to raise awareness of basic information about remittance products and services, including charges and fees.</li> </ul> </li> <li>• <b>IGAD countries could rationalize their financial consumer protection legal frameworks</b> by ensuring that the entities responsible for financial consumer protection have clear mandates, sufficient capacity and expertise, and effective mechanisms for coordination and collaboration with internal and external stakeholders.</li> </ul>	<p><b>Medium-term:</b> expected to be implemented in the next 2–3 years</p>

Table 5: Enablers, inhibitors and recommendations for reform of cooperation and collaboration

Enablers	Inhibitors	Recommendations	Priority
<p>IGAD countries are members of other African regional economic communities, such as the EAC and COMESA, and other regional and international forums such as the Eastern and Southern Africa Anti-Money Laundering Group.</p>	<ul style="list-style-type: none"> <li>• A lack of harmonized policies, laws and regulations related to cross-border remittances across regional blocks.</li> <li>• A lack of cooperation on AML/CFT measures on cross-border remittance flows among the IGAD Member States in the region, including sharing information. For example, an identification repository system could allow cross-border movements and KYC for financial transactions.</li> <li>• No easy information exchange procedures would enhance regulatory cooperation among the regulators within countries and at the regional level.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Central banks can consider harmonising remittance regulations within the IGAD region and other corridors.</b> It can be challenging to achieve harmonization if the regulations in each participating system are not rationalized or if operating regulatory frameworks and standards have significant deviations.</li> <li>• <b>Establish and agree on information exchange procedures that would enhance regulatory cooperation among the regulators within countries and at the regional level on cross-border payment arrangements and financial liberalization commitments,</b> especially those linked to the operation and licensing of financial entities, including RSPs.</li> <li>• <b>Other relevant public authorities could evaluate actions to collaborate on connecting or enhancing domestic and cross-border regulatory cooperation.</b> This could be done by assessing the existing arrangements and challenges, creating building blocks to improve the current regional cross-border remittance arrangements, and establishing a road map of practical steps (with timeframes) needed to harmonize policies. An intended outcome is increased efficiency, affordability and security of intraregional and cross-border funds transfers.</li> <li>• <b>Establish a Memorandum of Understanding (MOU) on a CDD/KYC information repository platform.</b> IGAD countries can sign an MOU to have a collaborative CDD/KYC information repository platform to enable financial institutions to access CDD profiles and information and leverage the platform to conduct CDD. The MOU can include minimum features for ID to be acceptable in all the IGAD Member States. See Annexe 3 for benchmarking case studies.</li> </ul>	<p><b>Short-term:</b> expected to be implemented in the next year</p>
<p>There are regulatory frameworks for issuing licences and supervising RSPs.</p>	<ul style="list-style-type: none"> <li>• There is a multitude of permits/licences. For example, if a central bank issues an RSP licence, local authorities must issue another licence/permit. Sometimes the ministry of trade also issues a business licence and likewise the telecommunications authority in the case of MMOs. At all points, there are fees to be paid apart from taxes.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Authorities and ministries may consider having a one-stop centre for licensing and issuing necessary permits for RSPs.</b> This can be achieved by working with the ministry of finance and/or trade, local authorities, telecommunications authorities and central banks.</li> <li>• <b>Consider improving partnerships and collaborations</b> among relevant authorities within the country and the region. This includes inter-ministerial/agency cooperation.</li> </ul>	<p><b>Medium-term</b></p>

## NEXT STEPS

The challenges facing remittance flows and the underlying frictions vary considerably from one IGAD Member State to another in terms of their scope, nature, types of entities, market dynamics and regulatory set-ups that could contribute to improvements. Some solutions may be implemented in the short term, while others may take longer to achieve. The road map, therefore, contains a mixture of near-term deliverables and longer-term initiatives, which may require several stages of mobilization and depend on political will and coordination among many stakeholders.

The road map aims to obtain a commitment from IGAD Member States to a shared vision to address complex regulatory and operational issues that would benefit individual countries and the region as a whole and have carry-on benefits for other economic sectors at both national and regional levels. This will require action by both the public and private sectors of the Member States, as only through coordination between both groups will significant progress be achieved. This will be foundational and provide overall direction by establishing a shared understanding of the targeted improvements in users' experience of cross-border payments and acting as a commitment mechanism to drive change.

IGAD countries recognize the essential contributions their migrants living and working in the region and abroad make to the economic development of their home countries. The IGAD Secretariat and UNCDF have thus sought to provide a similarly ambitious and comprehensive diagnostic for the specific and fundamental question of optimizing migrant remittances. It is acknowledged that the various recommendations also require various levels of effort and timeframes to implement. The Secretariat and UNCDF look forward to reviewing this report, the individual country assessment reports with central banks and other key government stakeholders and identifying opportunities where specific support can be provided in the future. Along with consultations to review this report's contents, the Secretariat and UNCDF will keep the IGAD Member States updated about the vast body of work on migration and remittances.

The IGAD Secretariat and the UNCDF will pursue an ambitious capacity-building and learning agenda. UNCDF has partnered with leading academic and learning institutions to better understand shared challenges and opportunities about building enabling ecosystems, pursuing evidence-based decision-making, and designing migrant-centric financial products. We look forward to the participation of IGAD stakeholders in the capacity-building coursework.

In the meantime, we have already begun working with financial institutions and mobile money providers in some countries, such as Ethiopia, on different aspects of the programme's overarching mandate, namely improving access to and the adoption of digital remittance channels, improving usage, and designing migrant-centric products and services.

We also look forward to supporting the efforts of the central banks to implement transaction reporting systems on remittance data to capture and share information.

Finally, as we begin collaborating with IGAD central banks to review this report, we also look forward to holistically considering the set of recommendations. The holistic approach is essential for several reasons. Firstly, all the work will ultimately support the central banks' efforts to improve remittance flows through regulated channels, thus giving regulators a more accurate picture of the actual balance of payments and enabling better policymaking. At the same time, the work will also advance the financial inclusion of migrants and their families, thus advancing the financial inclusion agenda for the region.

All these recommendations are aligned with national and regional strategies, which cut across sectors and demographic segments to bring the entire region into the digital era and speed investment and development. Collectively, the set of recommendations in this report forms a system. Changes to any single factor will likely cascade through that system. Tackling the recommendations systemically, rather than looking at individual recommendations in isolation, will make their interdependencies and linkages more visible, keep them aligned with the monetary, financial inclusion and digitalization agendas at the forefront and, ultimately, create the best path forward.

# ANNEXE 1. BENCHMARKING: POLICIES, AND LEGAL AND REGULATORY FRAMEWORKS

Foreign exchange regulatory frameworks								
Djibouti	Ethiopia	Kenya	Somalia	South Sudan	Sudan	Uganda	Bangladesh	Philippines
<p>No foreign exchange restrictions.</p> <p>There are no limitations on converting or transferring funds or on the inflow and outflow of cash. Funds can be transferred by banks or international money transfer companies such as Western Union, which are monitored by the central bank.</p>	<p>Foreign exchange rates are closely managed to maintain the purchasing price of the Birr and are not determined by market forces.</p> <p>No person residing in Ethiopia can hold foreign currency for more than 30 days, and any resident entering Ethiopia from abroad shall declare possession of more than \$1,000. The minimum rises to \$3,000 for non-residents. Any resident carrying foreign currency shall convert it at an authorized bank.</p>	<p>The law provides that the market determines the external value of the Kenya shilling. There are no limitations on converting or transferring funds or on the inflow and outflow of cash. Funds can be transferred by banks or international money transfer companies such as Western Union, which are monitored by the central bank.</p> <p>Non-residents may import local and foreign currencies without restrictions, but amounts exceeding \$10,000 must be declared. Residents and non-residents leaving Kenya must have documents indicating the source of funds and the purpose for the amount if it is \$5,000 or more.</p> <p>There is no holding limit.</p>	<p>Central Bank of Somalia Act Law No. 130 of 22 April 2012, Section 32 mandates the government to decide on the system (floating, fixed, or any variation thereof) that shall establish the value of the Somali shilling in relation to foreign currencies (the foreign exchange regime).</p> <p>No effective government agency determines monetary policy, and several currency traders set the exchange rate.</p>	<p>Foreign exchange activities are governed by the Foreign Exchange Business Act, 2012.</p> <p>The Bank of South Sudan is responsible for licensing and supervising all foreign exchange businesses in the country.</p>	<p>There are no foreign exchange restrictions.</p> <p>The Central Bank of Sudan Act empowers the board of the Central Bank of Sudan, upon the governor's recommendation, in consultation with the Minister for Finance and National Economy, to determine the policies of the par value of the Sudanese pound.</p> <p>Inflow amounts exceeding \$10,000 or equivalent must be declared and accompanied by an import declaration if it is an outflow. There is no holding limit.</p>	<p>There are no foreign exchange restrictions at the moment.</p> <p>The Bank of Uganda board is empowered, in consultation with the Minister, to prescribe the framework for determining the external value of the Ugandan shilling. The Bank of Uganda can buy and sell foreign currency: (i) at rates determined by market conditions; and (ii) on terms the board may determine. The Bank of Uganda regulates foreign exchange operations.</p> <p>Inflow amounts exceeding \$10,000 or equivalent must be declared or accompanied by an import declaration if it is an outflow.</p> <p>There is no holding limit.</p>	<p>Only authorized dealers appointed by Bangladesh Bank may engage in any foreign exchange transactions. Residents of Bangladesh may hold up to \$5,000 in foreign currency and any amount of foreign currency in a Resident Foreign Currency Deposit Account with an authorized dealer. Non-residents and foreigners may hold any foreign currency with themselves or a bank.</p> <p>Inbound remittances from Bangladeshi nationals working abroad can be received through banks, post office branches, authorized non-governmental organizations, and agents of mobile phone companies.</p> <p>Non-residents may bring up to \$3,000 in foreign currency into the country without declaring it. Non-resident foreigners can open and hold foreign currency accounts with authorized dealers without prior permission from Bangladesh Bank.</p>	<p>Foreign exchange transactions are primarily regulated by the Manual of Regulations on Foreign Exchange Transactions. The manual stipulates the policies that govern eligible loan purposes, public sector and publicly guaranteed private sector loans, purely private sector foreign loans, and cross-border transfers.</p> <p>Any person may freely bring in or out of the country up to PHP50,000 in Philippine pesos. Any person may freely bring in or out of the country up to \$10,000 in foreign currency. Residents may purchase foreign currency within a daily limit with a duly completed application to purchase foreign currency. Any purchase over \$500,000 for non-trade purchases is allowed with additional documentation.</p>

## National payment system: Operating hours policies

Djibouti	Ethiopia	Kenya	Somalia	South Sudan	Sudan	Uganda	Saudi Arabia	South Africa	Australia
RTGS started operations in July 2022. It operates 8 hours a day.	RTGS between 8:30 am and 4:00 pm East African Time (EAT) (not available on public holidays).	RTGS between 8:30 am and 4:00 pm EAT (not available on public holidays).	RTGS is currently operational for limited hours.	No RTGS. However, the African Development Bank Group is currently funding South Sudan in this area through a project from August 2019 to December 2022.	RTGS between 8:30 am and 4:00 pm EAT (not available on public holidays).	RTGS between 8:30 am and 4:00 pm EAT (not available on public holidays).	Saudi Arabian Riyal Interbank Express (SARIE), the RTGS payment system in Saudi Arabia, is a fully integrated RTGS system that permits all banks within the country to make immediate interbank money transfers through accounts held at the Saudi Arabian Monetary Agency (SAMA), the central bank of Saudi Arabia. The system has 24-hour availability and ensures payment finality and irrevocability. SARIE business hours are as follows: Saturday to Wednesday, 9:00 am to 4:00 pm; Thursday, 9:30 am to 1:30 pm.	South African Multiple Option Settlement (SAMOS) operates 24/7. The settlement day starts one second after midnight and closes at midnight.	Core operating hours for the Reserve Bank Information and Transfer System (RITS) are 7:30 am to 10:00 pm Australian Eastern Standard Time (AEST) and Australian Eastern Daylight Time (AEDT) on business days, while the Fast Settlement Service operates on a 24/7 basis. RITS has five key services it provides members, including cash transfers and settlement of high-value payments exchanged via SWIFT.

## Electronic money issuance regulations: Mobile money daily transactions for natural persons

Djibouti	Ethiopia	Kenya	Somalia	South Sudan	Sudan	Uganda	Tanzania
Not more than 1 million FDJ (USD 5,715) a day and 3 million FDJ (USD 17,140) a month.	ETB6,000 (\$208) and mobile bank account balances of ETB25,000 (\$868).	<p>No more than KSh70,000 and an aggregate monthly load limit of KSH1 million, provided that the bank may approve higher amounts for specific categories of e-money issuers.</p> <p>Following the onset of the COVID-19 pandemic, Kenya increased the limits for mobile money as follows: transaction limit: KSh150,000 (\$1,360); daily limit: KSh300,000 (\$2,720); mobile money wallet limit: KSh300,000 (\$2,720); and the monthly total limit for mobile money transactions was removed.</p>	No regulatory limit.	<p>Tier 1 accounts are subject to a maximum balance limit of South Sudanese pounds (SSP) equivalent to \$1,000, an aggregate daily transaction limit of SSP equivalent to \$250 and an aggregate monthly transaction limit of SSP equivalent to \$2,000.</p> <p>Tier 2 accounts are subject to a maximum balance limit of SSP equivalent to \$4,000, an aggregate daily transaction limit of SSP equivalent to \$1,000 and an aggregate monthly transaction limit of SSP equivalent to \$8,000.</p> <p>Tier 3 accounts are subject to a maximum balance limit of SSP equivalent to \$10,000, an aggregate daily transaction limit of SSP equivalent to \$2,000 and an aggregate monthly transaction limit of SSP equivalent to \$20,000. Over-the-counter transactions are subject to a single transaction limit of SSP equivalent to \$1,000.</p>	SDG500 (US\$75)	<p>Daily transaction limits are risk-based.</p> <ul style="list-style-type: none"> <li>Tier 7: Individual customers (handset transactions): Electronically registered: Maximum single transaction limit: UGX3 million; maximum daily transfer: UGX10 million (\$440); maximum daily balance: UGX10 million.</li> <li>Tier 6: Individual accounts with higher limits: Electronically registered plus physical registration and storage of documents in the mobile money customer account registry applying KYC/CDD controls: Maximum single transaction limit: UGX5 million; maximum daily transfer: UGX20 million; maximum daily balance: UGX20 million.</li> <li>Tier 5: Small- and medium-sized enterprises: Electronically registered plus physical registration and storage of documents in the mobile money customer account registry applying KYC/CDD controls: Maximum single transaction limit: UGX10 million; maximum daily transfer: UGX50 million; maximum daily balance: UGX50 million.</li> <li>Tier 4: Retail agents: Individuals or small- and medium-sized enterprises registered as retail agents with full KYC/CDD: Maximum single transaction limit: UGX20 million; maximum daily transfer: UGX 100 million.</li> <li>Tiers 3, 2 and 1: Respectively, super agents, merchants and government/international/religious/educational bodies: no limits but full KYC/CDD and submission of monthly reports to the Bank of Uganda required.</li> </ul>	<p>Transactions limits are risk-based.</p> <p>Individual customers (handset transactions):</p> <ul style="list-style-type: none"> <li>Tier 1: Electronically registered: Maximum single transaction limit: TZS1 million (\$440); maximum daily transfer: TZS1 million (\$440); maximum daily balance: TZS2 million (\$880)</li> <li>Tier 2: Electronically registered plus physical registration and storage of documents in the mobile money customer account registry applying KYC/CDD controls: Maximum single transaction limit: TZS3 million (\$1,300); maximum daily transfer: TZS3 million (\$1,300); maximum daily balance: TZS5 million (\$2,165).</li> </ul> <p>Small- and medium-sized enterprises:</p> <ul style="list-style-type: none"> <li>Tier 3: Electronically registered plus physical registration and storage of documents in the mobile money customer account registry applying KYC/CDD controls: Maximum single transaction limit: TZS10 million (\$4,330); maximum daily transfer: TZS50 million (\$21,654); maximum daily balance: TZS50 million (\$21,654).</li> </ul> <p>Retail agents:</p> <ul style="list-style-type: none"> <li>Tier 4: Individuals or small and medium-sized enterprises registered as retail agents with full KYC/CDD: No maximum single transaction limit; no maximum daily transfer, since agents are not allowed to send person-to-person payment transfers—they are only for cash-in and cash-out; maximum daily balance: TZS100 million (\$43,309).</li> </ul>

Microfinance regulatory frameworks									
Djibouti	Ethiopia	Kenya	Somalia	South Sudan	Sudan	Uganda	Bangladesh	Philippines	Tanzania
<p>Permissible activities for MFIs are all essential financial services and funds transfers within Djibouti and money exchange.</p> <p>This law defines 'microfinance' as all essential financial services: credit and savings, in particular, but also funds transfers, money exchange, insurance and domiciliation of salaries/ pensions/ emoluments etc.) intended to provide or contribute effectively to the promotion of vulnerable segments of the Djiboutian population. MFIs cannot engage in money transfers beyond the country's borders.</p>	<p>MFIs are only permitted to participate in the remittances market as a sub-agent of a banking partner.</p> <p>Although the law does not directly provide that money transfer is one of the permissible activities, it is provided in the law that MFIs may engage in other activities as specified by directives of the National Bank of Ethiopia from time to time.</p>	<p>The Central Bank of Kenya (CBK) regulates deposit-taking MFIs only. As per the law, international remittances are not necessarily part of an MFI's remit.</p> <p>However, the law empowers the CBK to prescribe any other business activity.</p>	<p>The Somali microfinance industry is currently unregulated. CBOS has established a board-level resolution outlining the requirements for registering an MFI. MFIs have started to apply for the registration certificates.</p> <p>The Financial Institutions Law of 2012 only recognizes commercial banks and money transfer businesses as financial institutions, which has left microfinance players in a legal vacuum.</p>	<p>There is no regulation in place. The microfinance sector is self-regulating.</p>	<p>Sudan has a Sudanese Islamic microfinance regulatory and supervisory framework: rules introduced in 2006 and Islamic microfinance policy and regulations introduced in 2011.</p> <p>Sudanese microfinance providers are also instructed to follow the rules and regulations of the Islamic Financial Board (IFSB) and the Consultative Group to Assist the Poor (CGAP) related to the transparency of their financial data.</p> <p>There is nothing in the law on whether MFIs can undertake international remittances.</p>	<p>Microfinance business, as defined in the law, means the business of accepting deposits from and providing short-term loans or other credit to small micro-enterprises and low-income households, usually characterized by the use of collateral substitutes, such as group guarantees and economically equivalent Islamic financial business. Deposit-taking MFIs are not expressly prohibited from dealing with funds transfers or remittances as long as they possess a valid money remittance licence.</p>	<p>Under the Microcredit Regulatory Authority Act of 2006, the government established the Microcredit Regulatory Authority (MRA) to oversee the activities of non-governmental MFIs. According to the Act, the MRA will be responsible for the three primary functions that will need to be carried out: licensing MFIs with explicit legal powers; supervising MFIs to ensure that they continue to comply with the licensing requirements; and enforcing sanctions in the event of any MFI failing to meet the licensing and ongoing supervisory requirements.</p>	<p>The Microfinance Non-governmental Organizations Act, 2015 defines 'microfinance' as the viable and sustainable provision of a broad range of financial services to low-income individuals engaged in livelihood and microenterprise activities. It uses non-traditional and innovative methodologies/ approaches, namely: the extension of small loans, simplified loan application procedures, group character loans, collateral-free arrangements, cash flow-based lending, alternative loan repayments, minimum requirements for capital build-up/minimum balance retention, and small-denominated savers' instruments aimed to improve their asset base and expand their access to capital and savings.</p>	<p>Section 4 (3) (d) of the Microfinance Act, 2018 provides that the microfinance business undertaken under the Act shall include "transfer and payment services, including digital microfinance services". RSPs are also authorized to conduct money remittance services through agents in line with requirements stipulated in the relevant regulations.</p>

## Consumer protection, disclosure and transparency frameworks

Djibouti	Ethiopia	Kenya	Somalia	South Sudan	Sudan	Uganda	Bangladesh	Philippines	Tanzania
<p>Djibouti has no stand-alone consumer protection legislation. Law No. 28/AN/08/6ème L, relating to protection, repression, fraud and consumer protection, does not cover state-owned enterprises. The law guarantees freedom of trade by prohibiting abuses of dominant position, cartels and other anti-competitive practices. It requires market transparency and contains consumer protection measures. Under this law, the Government of Djibouti may regulate prices in production, distribution and service activities where competition remains limited.</p> <p>In addition, different aspects of consumer protection are found in other laws depending on the subject matter.</p>	<p>Among other requirements, service providers must display the price of goods and services and refrain from announcing misleading or false advertisements.</p> <p>The law provides for general competition and consumer protection.</p> <p>The National Bank of Ethiopia issued Financial Consumer Protection Directive No. FCP/01/2020, which aims to foster fair, responsible and transparent financial transactions and shape the professional conduct of financial services providers towards financial consumers. It applies to any financial service provider, financial product and service, and financial consumer and security provider.</p>	<p>The Consumer Protection Act, 2012 protects consumers, prevents unfair trade practices in consumer transactions and provides for matters incidental thereto.</p> <p>There is no specific legislation in respect of financial consumer protection.</p> <p>In 2016, the Competition Authority of Kenya issued an order to financial service providers to fully disclose all applicable charges for transactions delivered via mobile phones prior to completion of the transaction.</p>	<p>There is no specific stand-alone consumer protection legislation in Somalia.</p> <p>Furthermore, no officially recognized agency is responsible for implementing a national consumer protection policy.</p>	<p>The Consumer Protection Act, 2011 establishes a legal framework for the protection of the interests and welfare of consumers in their dealings with producers and suppliers. Still, it excludes a transaction or activity regulated under any written law such as insurance, banking, money lending or financial services. The Electronic Money Regulation, 2017 provides for consumer protection mechanisms such that an e-money service provider shall prominently display all fees and service charges for mobile money services at its head office and branches.</p>	<p>Sudan has no stand-alone consumer protection legislation.</p>	<p>Bank of Uganda Financial Consumer Protection Guidelines, 2011 apply to (i) all financial service providers regulated by the Bank of Uganda in respect of business they transact in Uganda; and (ii) agents of all financial service providers regulated by the Bank of Uganda in respect of the agent's business transactions in Uganda.</p> <p>The guidelines require that the relationship between a financial service provider and a consumer be guided by three key principles: fairness, reliability and transparency.</p>	<p>The Financial Integrity and Customer Services Department within Bangladesh Bank is responsible for protecting customers' interests, managing complaints against banks and financial institutions, improving the banker-customer relationship, and ensuring the standard of customer services within the banking sector. The Guidelines for Customers Services and Complaint Management (2014) state the standards of customer services that banks must adhere to, including procedures for receiving and handling customer complaints, and details customers' rights regarding banking services. The Bank also requires that customers must have access to information about interest rates, fees, terms and conditions, and risks of financial products and services.</p>	<p>The Financial Consumer Protection Department (FCPD), a part of Bangko Sentral, is mandated to protect consumers' financial rights. The four core functions of the FCPD are consumer assistance, financial education, policy initiation and market conduct regulation.</p> <p>The FCPD uses a five-point framework instituted by Circular No. 857 (2014) to upload consumer protection standards of conduct: (i) disclosure and transparency; (ii) protection of client information; (iii) fair treatment; (iv) effective recourse mechanism; and (v) financial education and awareness.</p>	<p>The Bank of Tanzania issued the Financial Consumer Protection Regulation in 2019. The regulations apply to financial service providers operating in the country. According to the regulations, 'financial consumer protection' means laws, institutions, practices and policies to safeguard consumer rights, enable consumers to make informed financial decisions and ensure fairness in the provision of products and services by financial service providers. It requires every financial service provider to have in place a structure of governance that will ensure effective implementation of consumer protection in accordance with the provisions of the regulations).</p>

AML/CFT regulatory frameworks							
Djibouti	Ethiopia	Kenya	Somalia	South Sudan	Sudan	Uganda	Financial Action Task Force (FATF)
<p>The Banque Centrale de Djibouti Law provides that money laundering is punishable by the penal system. As such, the central bank, as part of its mission of monitoring and regulating the national banking and financial system, is empowered to take any measures it deems necessary.</p> <p>Credit institutions and financial institutions are required to confirm the identity and address of their customers before opening an account or passbook, taking securities or vouchers into custody, allocating a safe or establishing any other business relationship. A natural person's identity is verified by presenting an original valid official document, including a photograph, of which a copy is taken. Their address is verified by presenting a document proving it.</p> <p>The law requires reporting institutions to report suspicious transactions.</p>	<p>The law adopts the FATF Recommendation and stresses the need to apply a risk-based approach to ensure that measures to prevent and mitigate ML/FT are proportionate to the identified risks. The issue is whether the National Bank of Ethiopia has taken advantage of this flexibility in the law by ensuring service providers are implementing a risk-based approach to KYC for customer onboarding and related requirements.</p> <p>The laws provide acceptable IDs and conditions for non-face-to-face business relationships.</p> <p>The law requires reporting institutions to report suspicious transactions.</p>	<p>CBK has a risk-based supervisory framework for AML/CFT. CBK, one of the designated AML/CFT supervisors under the Act, has been authorized to issue fines and penalties to institutions and individuals who violate the Act.</p> <p>The Proceeds of Crime and Anti-Money Laundering Act, 2009 imposes obligations to verify customer identity, requiring financial institutions to apply enhanced CDD measures.</p> <p>The law describes customer ID as an official record reasonably capable of establishing the applicant's true identity.</p> <p>Proof of address is also verified by a referee or utility bill. The law requires reporting institutions to report suspicious transactions to the Financial Reporting Centre.</p>	<p>Somalia has the Anti-Money Laundering and Countering the Financing of Terrorism Act, 2016. Art. 5 of the Act provides for CDD. Clause 5 of this article provides for a possibility of a proportionate, risk-based approach and flexible KYC/CDD requirements by stipulating that regulations issued by an appropriate supervisory authority that, in the interest of improving financial inclusion, reduce general CDD obligations require the consent of the Financial Reporting Centre, as the national agency responsible for the AML/CFT risk assessment, and must be based on a written finding of lower risk based on the specific circumstances and limitations of the product, service or client category.</p>	<p>The Electronic Money Regulation, 2017 contains AML requirements. It calls for e-money service providers and their agents to comply with the Anti-Money Laundering and Countering Terrorist Financing Act, 2012 and any other Financial Intelligence Unit (FIU) requirements as may be issued from time to time. E-money service providers are required, within seven calendar days, to furnish the FIU with information on any suspicious transaction, agent or subscriber.</p>	<p>The Money Laundering and Terrorism Financing Act, 2009 requires the Central Bank of Sudan to enlist and control the amount and movement of outflowing and inflowing funds through the financial institutions and to investigate any unusual or informal channels that may not be proportionate to the natural or ordinary rates or the economic reality of the State. Financial and non-financial institutions must know the identity of clients and beneficiaries of the natural persons and ascertain and identify the nature of their activities. Financial institutions performing telegraphic transfers shall attach an ID form.</p>	<p>The Anti-Money Laundering Act, 2013 provides for the prohibition and prevention of money laundering, the establishment of a Financial Intelligence Authority and a Financial Intelligence Board to combat money laundering activities; to impose specific duties on institutions and other persons, businesses and professions who might be used for money laundering purposes; to make orders concerning proceeds of crime and properties of offenders; to provide for international cooperation in investigations, prosecution and other legal processes of prohibiting and preventing money laundering; and to designate money laundering as an extraditable offence.</p> <p>This Act sets out measures for identifying clients, customers and other persons and other anti-money laundering acts.</p> <p>CDD measures include verifying the customer's identity using reliable, independent source documents, data or information.</p>	<p>The requirements concerning risk-based supervision are set out in the FATF Recommendations, and the FATF assesses the effectiveness of AML/CFT supervision under Immediate Outcome 3 of the FATF Methodology. A risk-based approach is less burdensome on lower-risk sectors or activities, which is critical for maintaining or increasing financial inclusion.</p> <p>Recommendation 1 (R.1) and its interpretative note (INR.1) explain the risk-based approach (RBA), and R.2 highlights the importance of national coordination, including with and among AML/CFT supervisors. R.1 and INR.1 require jurisdictions to identify, assess and understand the ML/TF risks and apply an RBA to mitigate the risks accordingly; this applies to supervisory activities. INR.1 requires supervisors to review and consider risk profiles and assessments developed by financial institutions and apply the RBA.</p> <p>In October 2020, the FATF amended R.1 and INR.1 to include a requirement for countries, financial institutions and designated non-financial businesses and professions to assess proliferation financing risks as defined under the Standards. This means that supervisors are now required to consider how the entities they supervise or monitor are exposed to proliferation financing risks and ensure the effective implementation of targeted financial sanctions. R.26 requires risk-based supervision of financial institutions, which requires that supervisors understand the ML/TF risk in their jurisdiction, sector and entities and have on-site and off-site access to all information relevant to those risks.</p> <p>Additionally, R.15, 27 and 28 require supervisors to have powers to impose a range of effective, proportionate and dissuasive sanctions (in line with R.35) to address failures to comply with AML/CFT requirements. Financial institutions subject to the Core Principles should be subject to licencing and supervision in line with the applicable Core Principles and R.26. All other financial institutions (including Money Value Transfer Service or money- or currency-changing providers) and Virtual Asset Service Providers must be licensed or registered and must be supervised or monitored depending on the ML/TF risks present in line with R.14, R.15 and R.26.</p> <p>Source: FATF, 'Guidance on Risk-based Supervision', Paris, March 2021, <a href="http://www.fatf-gafi.org/media/fatf/documents/Guidance-Risk-Based-Supervision.pdf">http://www.fatf-gafi.org/media/fatf/documents/Guidance-Risk-Based-Supervision.pdf</a> (accessed 27 August 2021).</p>

RSPs' regulatory frameworks								
Djibouti	Ethiopia	Kenya	Somalia	South Sudan	Sudan	Uganda	Bangladesh	Philippines
<p>Djibouti has a regulatory framework that governs RSPs but limits amounts, scope and enforcement mechanisms for consumer protection, transparency and disclosures.</p> <p>In addition to banks, remittance services are provided through financial auxiliaries. The capital requirement is DJF50 million (US\$300,000) for a money transfer service's financial auxiliary.</p>	<p>Ethiopia lacks non-bank RSP regulatory frameworks.</p> <p>The law restricts cross-border remittance services to only banks. RSPs can offer their services only through banks or other financial institutions licensed by the National Bank of Ethiopia, which then acts as the distribution network of the RSPs. RSPs are prohibited from offering their services 'directly' through a proprietary network of agencies or establishing franchised services in retail stores, supermarkets, MFIs or other outlets. Also, the directive is silent on the provision of remittance services through other digital channels.</p>	<p>Kenya has a regulatory framework governing RSPs but limitations regarding amounts, scope and enforcement mechanisms for consumer protection, transparency and disclosures.</p> <p>In addition to banks, remittance services are offered by companies established as RSPs. Licences expire on 31 December each year, regardless of the date of issue of the old licence. Applying incurs a non-refundable fee of Ksh20,000 (\$200) and \$500.</p> <p>RSPs' required core capital is Ksh20 million (\$200,000) and an insurance bond of no less than KSh5 million (\$50,000) or an amount equal to 1 percent of the applicant's projected total volume of business for the first year of operation.</p>	<p>Remittances are provided by companies licensed under the Financial Institutions (Money Transfer Business Registration) Regulations, 2014.</p> <p>In addition to banks, remittance services are offered by companies established as RSPs. A licence granted under this Regulation shall be valid for one year and may be annually renewable, provided that a licence granted in a calendar year shall be valid up to 31 December of the same year. Applying incurs a non-refundable fee of \$10,000 per outlet and \$500 per agent.</p>	<p>South Sudan has a regulatory framework that governs RSPs but has limitations in amounts, scope and enforcement mechanisms for consumer protection, transparency and disclosures.</p> <p>In addition to banks, remittance services are offered by foreign exchange bureaux. A licence has to be renewed annually, costing SSP10,000 (approximately \$80) on application.</p> <p>The required initial capital for a foreign exchange bureau is an amount in SSP equivalent to \$600,000 and a security deposit of \$120,000.</p>	<p>Sudan has a regulatory framework governing RSPs but limitations in terms of amounts, scope and enforcement mechanisms for consumer protection, transparency and disclosures.</p> <p>In addition to banks, remittance services are offered by foreign exchange bureaux.</p> <p>The authorized capital must not be less than \$500,000 for branches of companies established in Sudan, and the paid-up capital may not be less than \$300,000 for branches of companies established in Sudan, plus an insurance bond of 5 percent of the paid-up capital, which can be taken into account in establishing the minimum capital.</p>	<p>Uganda has a regulatory framework that governs RSPs but limits amounts, scope and enforcement mechanisms for consumer protection, transparency and disclosures.</p> <p>In addition to banks, remittance services are offered by companies established as RSPs. Licences are valid for 12 months. The application fee is UGX2 million (\$600), and opening a branch costs a similar additional amount.</p> <p>Capital requirements are 2,500 currency points (\$15,000) and a security deposit of UGX50 million (\$15,000).</p>	<p>According to the Bangladesh Payment and Settlement System Regulations, 2014, an applicant may be required to maintain capital adequacy at levels specified by Bangladesh Bank to obtain a licence. The type of service will determine the level of capital, the average value of payments, aggregate value and other factors as the Bangladesh Bank deems necessary.</p> <p><i>(See Bangladesh Bank, 'Bangladesh Payment and Settlement System Regulations, 2014', Dhaka, 2014, <a href="https://www.bb.org.bd/aboutus/regulationguideline/bpps.pdf">https://www.bb.org.bd/aboutus/regulationguideline/bpps.pdf</a>).</i></p>	<p>The Manual on Regulations of Non-Bank Financial Institutions (MORNBF1) requires businesses providing remittance services to register with the Bangko Sentral before operating. Remittance and transfer companies, money changers and foreign exchange dealers are divided into six categories based on their transaction volumes and type of service. They must pay a one-time registration fee, based on their category, and an annual service fee after that. Two in every three Filipinos are financially excluded and thus do not have digital wallets or accounts. This situation limits the number of users with a digital means to receive social benefits or remittances, pay bills or save formally</p> <p><i>('Country Diagnostic: The State of Digital Payments in the Philippines', December 2019). (See <a href="http://www.bsp.gov.ph/downloads/Regulations/MORB/2018MORNBF1.pdf">http://www.bsp.gov.ph/downloads/Regulations/MORB/2018MORNBF1.pdf</a>).</i></p>

Regulatory framework for fintechs								
Djibouti	Ethiopia	Kenya	Somalia	South Sudan	Sudan	Uganda	Nigeria	Rwanda
No regulatory frame-work.	No regulatory frame-work.	No regulatory frame-work.	No regulatory frame-work.	No regulatory frame-work.	No regulatory frame-work.	<p>The National Payment System Act, 2020, provides a regulatory sandbox framework. Uganda has created the National Payment System (Sandbox) Regulations, 2021. Regulatory sandboxes offer a space to test new technology in the financial services sector for a limited time without licensing. They encourage the innovation of new products while ensuring adequate consumer protection in a relaxed regulatory environment. The framework does not require a licence; however, approval must be obtained from the central bank.</p> <p>The regulation requires, among others, submission of the dispute resolution policy of the sandbox, a description of the innovative concept, a testing plan, a risk management framework and an exit plan to obtain approval. The central bank can revoke the approval in certain conditions as the regulation provides.</p>	<p>In July 2020, the Central Bank of Nigeria (CBN) released the Framework for Regulatory Sandbox Operations, aimed at establishing a controlled environment where disruptive technology in financial services can be tested under the supervision of the CBN. The framework aims to allow eligible fintech innovators to test their products, services or solutions without the need to acquire a CBN licence. The framework is targeted at innovations that can improve the Nigerian payments system. It applies to proposed products, services and solutions that are either not included in the current laws and regulations or do not precisely align with existing regulations. It allows CBN licensees and local companies (including financial sector companies and telecommunications companies) to participate in the sandbox operations. Innovators whose proposed payment solution involves technologies currently not covered under existing CBN regulations are also welcome to participate.</p> <p>Entities that apply to the sandbox operations must show evidence that the product, service or solution is innovative, valuable and functional and that associated risks have been identified.</p> <p>The entities should also have a business plan to show that the product, service or solution can be successfully deployed after they exit the sandbox. Applications are submitted with a covering letter signed by an authorized signatory of the applying entity and addressed to the Director, Payments System Management Department, Central Bank of Nigeria, Abuja. The applicants are to state the initial timeline (in months) for the proposed product, service or solution test.</p>	Rwandan national payments regulations allow for sandboxes. If a person intends to provide an innovative product or service within payment services but does not clearly correspond to one of the services or products currently regulated or represents a hybrid product, the person may apply for a sandbox to the central bank.

# ANNEXE 2. BENCHMARKING: PAYMENT INFRASTRUCTURE

## RETAIL PAYMENT SYSTEMS

### MALAYSIA

- Retail payment systems in Malaysia include a shared ATM network, enabling bank customers to access their funds from any participating banks' ATMs. Services offered include domestic and cross-border cash withdrawals, electronic funds transfers, mobile prepaid top-up, and credit card and loan repayment. Other retail systems include interbank GIRO, a payment system that provides batch-mode funds transfer services among participating banks; instant transfer, a payment system that provides real-time funds transfer services among participating banks; financial process exchange, an Internet-based multi-bank payment platform that leverages online banking services to offer online payments for e-commerce transactions; direct debit, an interbank collection service for regular and recurring payments, enabling automated collection directly from a customer's bank account at multiple banks with a single authorization; JomPAY, an open electronic bill payment platform which leverages the combined infrastructure and network of the banking industry to allow any registered biller to receive payments from customers of participating banks; and MyDebit, a domestic debit card scheme which allows cardholders to make payments using their ATM cards.
- Other systems in Malaysia include the Central Credit Reference Information System (CCRIS), a system that collects credit information on borrowers from financial institutions to facilitate credit and financial management decision-making among borrowers and financial institutions; and the Dishonoured Cheque Information System (DCHEQS), a computerized database system to collect, process, store and generate information related to dishonoured cheques. The DCHEQS facilitates a market-based mechanism to promote confidence in using cheques as a payment instrument and to provide a reference for financial institutions in approving new current accounts and closing accounts due to frequent dishonoured cheques.

### MEXICO

- Non-bank access to large-value payment systems: the Mexican RTGS system (SPEI) case. When SPEI began operating in 2004, only banks were eligible to participate. At that time, some non-banks, mainly broker-dealers, claimed that banks did not provide adequate payment services. The main complaints were (i) restrictions on operating schedules, i.e., banks refused to receive payment instructions from some broker-dealers after 3:30 pm, even though the banks were connected to SPEI and could still send transfers until 5:00 pm; (ii) high fees, i.e., banks would charge fees based on the transfer amount, especially for transfers sent by financial institutions; and (iii) poor STP facilities provided by banks for their payment processes, causing delays in payment processing, i.e., banks would delay sending transfers, huge ones. After investigating these complaints, the Bank of Mexico concluded that SPEI participants did not have sufficient incentive to offer adequate payment services to non-banks that competed with them. As a result, non-banks had to maintain accounts with each major bank and use manual processes that significantly increased their costs and operational risks. In response to these findings, the Bank of Mexico's board authorized direct access to SPEI for all regulated financial entities at the end of 2005. Since then, any regulated financial institution can become a direct participant in SPEI. As a result, some non-banks, such as broker-dealers, foreign exchange firms, insurance companies, microfinance and financial services firms, pension fund managers, investment fund managers, and telecommunications companies, participated directly in SPEI.
- To foster mobile payments and their interoperability, the Bank of Mexico issued new regulations at the end of 2013 and amended various provisions regarding SPEI rules so that mobile payment clearing houses were required to participate in SPEI and to receive mobile payments sent by other SPEI participants, including by other mobile payment clearing houses. By mid-2015, SPEI participants had to process interbank mobile payments in less than 15 seconds (from initiation to posting of funds), which is faster than the requirement for other SPEI transfers. In addition, participating institutions had to gradually expand customer service availability to 20/7 from the previous 12/5 schedule. The Bank of Mexico also cut the mobile payment SPEI originating fee from \$0.04 to less than \$0.01. These changes are intended to foster mobile payments, help them reach underbanked populations and increase financial inclusion.

## RETAIL PAYMENT SYSTEMS

### PHILIPPINES

- In the Philippines, two major clearing switch operators cater to retail payments in the country:
  - BancNet: an interbank network connecting the ATM network of more than 80 banks in the Philippines, with services including ATM and POS switching, interbank funds transfer, bill payment switching, Internet payment gateway and payment to government entities; and
  - Philippine Clearing House Corporation (PCHC): incorporated in 1977 as a private corporation owned equally by all commercial banks, primarily automating the cheque-clearing system.
- Currently, they operate the following systems:
  - The Electronic Check Clearing System (ECCS) was implemented in 1999 to enable quicker value exchange and help banks transmit data on clearing cheques electronically to the PCHC and deliver corresponding physical items later;
  - Electronic Peso Clearing and Settlement (EPCS): an interbank account-to-account funds transfer system that supports bulk, recurring, non-time-sensitive payment and collection transactions; and
  - the Philippine Domestic Dollar Transfer System (PDDTS) is a facility used by the banking industry for the settlement of US\$ transactions between banks by moving US\$ funds from one Philippine bank to another during the same day, without having to go through correspondent banks in the USA. In particular, the end-of-day net positions of banks arising from overseas Filipino worker remittances are coursed through the PCHC. Other types of PDDTS transactions are coursed through the Philippine Securities Settlement Corporation.

## NATIONAL PAYMENT SYSTEMS' STANDARDS AND INTEROPERABILITY

### NEXUS PROJECT<sup>31</sup>

- Nexus is a project launched by the Bank for International Settlements (BIS) Innovation Hub with support from the Monetary Authority of Singapore and the National Payments Corporation of India. The project explores how the success of instant payments can be used to improve the cross-border payment experience. In summary, the requirements for senders (and recipients) of cross-border payments are as follows:
  - **Speed:** Payments should be near-instant. In most cases, the payment should be processed within 60 seconds. This time is measured from the moment the sender clicks 'Send payment', until the moment the sender and the recipient are notified that the payment has been successful. The payment set-up process should ensure that the payment is very likely to complete successfully. If the payment fails, the customer should be immediately informed.
  - **Cost:** The cost of sending a cross-border payment should be increasingly cost-efficient. The cost should be known before the sender clicks 'Send payment'. The cost should be transparent and not hidden in the exchange rate. (Many banks currently offer 'free' transfers which offer substandard exchange rates, meaning that the actual cost of the service is hidden, making it difficult for users to compare services, thus harming competition). The recipient should be credited with the amount that the sender sent. If the destination bank charges any fees for receiving cross-border payments, these should be charged as a separate line item. (For businesses, this aids reconciliation between incoming payments and invoices issued while enabling the fees to be recorded as a banking service cost).
  - **Transparency:** As above, fees and foreign exchange rates should be transparent and known upfront. Users should be able to see their payment status if it has not been successfully completed within two minutes. If payments cannot go through, users should be informed why and how to resolve it. (This is not always possible. For example, when illicit activity is suspected and telling the sender the reason for blocking the payment would constitute a 'tip-off').
  - **Access:** Any individual or business that can send a fast domestic payment should also be able to send cross-border payments through Nexus (assuming that their bank/PSP has enabled itself to make and receive them. Note: To make Nexus payments, a user must have a bank account or an account with a non-bank PSP that is a member of the IPS, so it does not address financial inclusion concerns around the unbanked).
  - **Confidence and security:** Where the recipient can use an alias (e.g., a phone number) for domestic payments, this alias should also be valid for cross-border payments. This will help the sender validate the identity of the recipient and would avoid the recipient from having to reveal more sensitive bank account numbers. Senders should be able to confirm that they are sending funds to the correct account through some form of payee confirmation (wherever possible).
  - **Usability:** The process of setting up a cross-border payment should be intuitive, helpful and as frictionless as possible otherwise, the service will not be widely used. The user should be able to use their existing banking channel, such as an app or Internet banking, to initiate Nexus payments. The Nexus service must not require a separate registration, log-in or app. As above, where the recipient can use an alias for a domestic payment, this alias should also be valid for cross-border payments through Nexus. This is because it is easier for a user to enter and confirm a phone number than (for example) a 34-character IBAN.

<sup>31</sup> See Bank for International Settlements, 'User Needs of Senders and Recipients', <https://nexus.bisih.org/user-experience/user-needs-for-senders-and-recipients> (accessed 25 August 2021).

## NATIONAL PAYMENT SYSTEMS' STANDARDS AND INTEROPERABILITY

### PAN-AFRICA PAYMENT & SETTLEMENT SYSTEMS (PAPPS)

- PAPPS is a centralized payment and settlement infrastructure for intra-African trade and commerce payments. This project, which is being developed in collaboration with the African Export-Import Bank (Afreximbank), will facilitate payments and formalize some unrecorded trade due to the prevalence of informal cross-border trade in Africa. It will also provide an alternative to the current high-cost and lengthy correspondent banking relationships to facilitate trade and other economic activities among African countries through a simple, low-cost, risk-controlled payment clearing and settlement system.
- The benefits of PAPPS for cross-border payments include cost reduction, reduction in duration and time variability, decreasing liquidity requirements of commercial banks, decreasing liquidity requirements of central banks for settlement and payments, and strengthening of central banks' oversight of cross-border payment systems.
- PAPPS is currently live in the West African Monetary Zone (WAMZ) in six central banks using six local currencies and two languages. Its unique offering supports instant payments in local currencies with settlement finality supported by Afreximbank. It has buy-in and has been fully endorsed by the African Union Heads of State and has a continent-wide regulatory framework for the participation of multiple players.

### ISO 20022

- ISO 20022 has emerged as the key global standard for developing modernized financial market infrastructures. At present, most payment systems follow the ISO 20022 standards, resulting in improved efficiency, lower costs and the avoidance of errors. ISO 20022 is a global standard for financial messaging that provides a standard model across business domains such as payments, securities, trade services, card services and foreign exchange. The standard sets messages with clarity of purpose and conveys information between parties within a payment chain. It also defines message specifications for each message type.
- Benefits of ISO 20022 include:
  - **Capable of sharing rich information:** ISO 20022 is capable of carrying large data sets and messages. Users of the standard can choose the quantity of data to share for necessary insights.
  - **Integration between both domestic and cross-border payments:** ISO 20022 is capable of integrating and standardizing domestic and cross-border payments in market practices, by rolling out standard guidelines.
  - **Interoperability and harmonization:** ISO 20022 allows for harmonization of previously known interoperable formats, and simplified data consumption and transmission. The underlying syntax of XML and the structured platform makes this standard more practical for payments. Looking ahead, there is a possibility of linking with the EAC payment systems, then supporting ISO20022 as the standard for messaging interoperability is useful.
  - **Efficiency gain and cost-savings:** ISO 20022 makes financial messaging more efficient by standardizing and harmonizing payment message formats, increases STP rates and simplifies cost-intensive processes such as payment processing, investigations, data analytics and reporting.

### CHILE AND SPAIN

- Individuals in Chile and Spain can now use the postal network to send and receive money to and from abroad. The service is currently offered in 110 post offices in Chile, 2,300 in Spain and 60 in Uruguay. The service is fast and secure; money transfers can be executed and delivered in 15 minutes. The service relies on the international financial system (IFS) application developed by the Universal Postal Union's (UPU's) Postal Technology Centre. To help postal operators move towards providing electronic money transfer services, UPU has been making its electronic network more secure and reliable. In 2005 a centralized clearing system was launched while concentrating additional efforts on crucial migration corridors. Using its IFS application, it has opened 150 corridors connecting 36 countries.

### SINGAPORE AND THAILAND LINKAGE OF REAL-TIME PAYMENT SYSTEMS

- On 29 April 2021, the Monetary Authority of Singapore (MAS) and the Bank of Thailand (BOT) launched the linkage of Singapore's PayNow and Thailand's PromptPay real-time retail payment systems. The linkage results from the collaboration between the MAS and the BOT, both countries' payment system operators, bankers' associations and participating banks. Customers of participating banks in Singapore and Thailand can transfer funds of up to \$1,000 or THB25,000 daily between the two countries, using just a mobile phone number. As with standard remittance solutions, there is no need to populate information fields such as the recipient's full name and bank account details. The funds will flow seamlessly and securely between customers' accounts in Singapore and Thailand. The experience will be similar to how domestic PayNow and PromptPay transfers are made, in which senders can use their mobile banking or payment applications to initiate fund transfers instantly and securely at any time of the day. The transfers will be completed within minutes, representing a marked improvement over the average of 1-2 working days needed by most cross-border remittance solutions. The participating banks have committed to benchmark their fees against the market. The fees will be affordable and transparently displayed to senders before confirming their transfers. Senders will also be able to view the applicable foreign exchange charges before sending their funds, benchmarking these rates closely to prevailing market rates. The MAS and the BOT are progressively scaling up the PayNow-PromptPay linkage to include more participants and extend the transfer limits to facilitate business transactions. They are working with counterparts in the Association of Southeast Asian Nations (ASEAN) to expand this bilateral linkage into a network of linked retail payment systems across ASEAN. The service offered by the MAS and the BOT effectively addresses customers' long-standing pain points in cross-border transfers and remittances, including long transaction times and high costs.

## NATIONAL PAYMENT SYSTEMS' STANDARDS AND INTEROPERABILITY

### TANZANIA

- The Bank of Tanzania is currently implementing a project to build an interoperable payment system known as the Tanzania Instant Payments System (TIPS). TIPS is an interoperable digital payment platform operated by the Bank of Tanzania, which allows the transfer of payments between different digital financial service providers, including banks and non-banks such as e-money issuers. TIPS will handle real-time payments exchanged among participating digital financial service providers. It will increase financial inclusion by improving access to and the uptake of financial services in Tanzania by fostering the interoperability of digital financial services among all PSPs in the country. The TIPS platform facilitates efficient clearing and settlements of digital financial service transactions for all PSPs. It will also increase efficiency by moving from bilateral to multilateral interoperability.

### EAST AFRICAN PAYMENT SYSTEM (EAPS)

- EAPS is a funds transfer mechanism used to transfer money from one bank to another across borders within the EAC countries of Kenya, Rwanda, Tanzania and Uganda. Transactions are carried out in the EAC local currencies. EAPS services are offered to bank customers (public) through RTGS between 8:30 am and 4:00 pm East African Time Monday to Friday, excluding public holidays.

### REGIONAL PAYMENT AND SETTLEMENT SYSTEM (REPSS)

- REPSS is a system designed for effecting cross-border payments between countries in the COMESA region. The system enables banks in the Member States to transfer funds more easily within the region through their local RTGS in US\$ and Euro. In Kenya the REPSS services are available to the public in most commercial banks from 8.30 am to 2:00 pm. The system went live in October 2012 and is currently available in eight countries, namely the Democratic Republic of the Congo, Kenya, Malawi, Mauritius, Rwanda, Swaziland, Uganda and Zambia.

### IDENTIFICATION SYSTEM IN KENYA

- In 2021, Kenya started *Huduma Namba*, a unique and permanent personal ID number randomly assigned to every resident individual at birth or on registration/enrolment. It only expires or is retired upon the death of the individual. *Huduma Namba* was established through Executive Order No. 1 of 2018 and by the statute law (Miscellaneous Amendments) Act, 2018, Sec 9A.CAP 107, Formulation of Registration of Persons (NIIMS) Regulations, 2020, and Formulation of Data Protection (Civil Registration) Regulations, 2020.
- *Huduma Namba* cards are issued within the national integrated identity management system (NIIMS) framework. They are multipurpose identity and electronic payment cards based on MasterCard specifications. They combine an international MasterCard payment application, two local payment applications, and an ID application, including biometrics. They enable individuals to access various government services and can be used as a travel document within the East African region. The cards have a person's data merged and installed in an electronic chip, thus eliminating other ID requirements. Kenyans in the diaspora collect their *Huduma Namba* cards from the country's diplomatic mission in their country of registration.

### MANSA

- MANSA is a collaborative CDD/KYC information repository platform which provides a single source of primary data required to conduct CDD on African entities, financial institutions, corporations and small- and medium-sized enterprises. The platform also provides a complementary collection of information on investment in Africa, country profiles and traded products/services of African countries, providing insights into Africa and deepening positive perceptions of the continent, thereby altering the risk perceptions of Africa and significantly de-risking the continent and, ultimately, fostering and increasing trade in Africa. Afreximbank has taken a lead role, in partnership with the African Development Bank, African central banks and other international and national strategic partners, to launch MANSA.

### INDIA'S AADHAAR ENABLED PAYMENT SYSTEM (AEPS)

- The AEPS, a system managed by the National Payments Corporation of India, is linked to the Unique ID Authority of India (UIDAI). UIDAI provides a unique ID (Aadhaar number) to each citizen and is developing an extensive database of multi-modal biometrics (fingerprint and iris scan). Since the Aadhaar ID is linked to all bank accounts and PSP mobile wallets, the Aadhaar ID and biometric authentication can be used during payment authentication. Customers who want to transact may use their Aadhaar ID to access their bank account after authenticating themselves with biometrics. The AEPS is connected to the UIDAI to allow real-time customer authentication before routing the transaction to the respective bank/PSP for authorization.

### MYKAD (NATIONAL ID AND BIOMETRIC SYSTEM IN MALAYSIA)

- MyKad is a national identity smart card issued to all Malaysians by the Government of Malaysia, which incorporates both the photograph and fingerprint biometric information of the cardholder to facilitate identity verification at government counters, financial institutions and other authorized counters. It may also incorporate applications that can be accessed quickly and securely to undertake a variety of electronic transactions such as payment and account access.

# ANNEXE 3. BENCHMARKING: MARKETS PRACTICES

## FINANCIAL LITERACY AND PUBLIC AWARENESS

### BURKINA FASO

- In Burkina Faso, the High Council of Burkinabés Abroad, a government institution created to engage the diaspora, works with diplomatic missions abroad to conduct information campaigns, not only on remittances but also on the rights and duties of the diaspora in their host countries.

### PHILIPPINES

- In 2008, the Philippines embassy in the Republic of Korea initiated a financial literacy campaign to maximize the potential benefit of diaspora remittances to national development. Working with Filipino community groups in Seoul, the embassy conducted more than a dozen seminars involving 400 participants over a year, an initiative that had a positive impact. Also, in the Philippines, overseas workers attend pre-departure orientation seminars conducted by several government agencies. This seminar programme has been in place since 1981.

### SRI LANKA

- Migrant workers are encouraged to set up bank accounts at departure through the Sri Lanka Bureau of Foreign Employment (SLBFE). The SLBFE, working closely with international recruiting agencies, plays the role of migrant worker clearing house before their departure. The average migrant worker stays abroad for 3–5 years. The SLBFE focuses on increasing the number of skilled labourers hired to work abroad. This development follows profound domestic socio-economic implications of sending young women abroad. The policy initiative also impacts migrant workers' savings as they earn higher wages, which has positive implications for future remittance growth. Several programmes exist to fund households at the bottom of the pyramid using remittances as collateral, like housing loans and small- and medium-sized enterprise loans. MFIs have extensive remittance delivery networks in remote areas and are increasingly playing the role of money transfer distribution agents for banks, including facilitating hand-to-hand delivery of cash at their local branches.

### MALAYSIA

- Bank Negara Malaysia (BNM) and the financial sector have made continuous efforts to promote greater awareness of and instil confidence in using cost-effective payment instruments and services (especially e-payments) among consumers and businesses. Such efforts include promoting online banking services, fund transfers via ATMs, using and accepting payment cards and safe practices in conducting e-payment transactions through nationwide roadshows, media engagements, workshops and other outreach programmes. To provide financial education to young people, financial education elements are now incorporated as part of primary and secondary school syllabi. BNM's subsidiary, the Credit Counselling and Debt Management Agency, also introduced a programme (the POWER! initiative) in 2011 targeting young individuals and first-time borrowers aged between 18 and 30 years to provide them with practical financial knowledge and skills to manage their finances effectively and tools to aid them in making sound and responsible borrowing decisions. The programme also highlights the consequences of financial decisions in real-life situations, focusing on everyday financial products such as credit cards, hire purchases and housing loans.
- Promotion of e-payments in Malaysia: In promoting e-payments in the government sector, BNM and the banking sector continuously engage with various government agencies to promote the adoption of e-payments for payment and collection. Approximately 99 percent of the federal government's payments (e.g., salary and pension payments) are made using e-payments. E-payments are also used to facilitate the efficient distribution of social benefits schemes introduced by the government to offer monetary assistance to low-income households and individuals, where the monetary assistance is credited directly into the bank account of the recipients. The government also issued MyKad ID cards to distribute necessities to underserved communities through MyKasih, a nationwide food aid programme supported by several government agencies. The government has also established a taskforce comprising relevant government departments and agencies and BNM to drive the use of e-payments in the public sector.

### GERMANY AND THE NETHERLANDS

- The governments of Germany and the Netherlands supported the creation of websites to provide consumer information on remittances and thus boost competition between financial institutions and increase transparency.

### IDENTIFICATION REQUIREMENTS OF DIFFERENT COUNTRIES

- Countries that issue consular cards include:
  - Nigeria (citizen's certificate)
  - Pakistan (National ID Card for Overseas Pakistanis)
  - Peru (*tarjeta consular*)
  - Senegal (*carte consulaire*)
  - Argentina (*matricula consular Argentina*)
  - Brazil (*matricula de cidadão Brasileiro*)
  - Colombia (*tarjeta de registro consular*)
  - Dominican Republic (*localizador archive*)
  - Ecuador (consular ID)
  - Guatemala (*tarjeta de identificación consular*)
  - Guinea (consular ID)
  - Mali (*carte d'identité consulaire*)
  - Mexico (*matricula consular*)
  - Indonesia: At the outset, migrants hold a national ID document approved by the Financial Services Authority, deemed compliant with national rules and regulations. For the purposes of maintaining the highest global AML/KYC standards, the Financial Services Authority requires that each migrant open a domestic bank account, facilitating the monitoring of financial practices and prevention of illegal activities.

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Unlocking Public and Private  
Finance for the Poor

## LEAVING NO ONE BEHIND IN THE DIGITAL ERA

The UNCDF Strategy 'Leaving no one behind in the digital era' is based on over a decade of experience in digital finance in Africa, Asia, and the Pacific. UNCDF recognizes that reaching the full potential of digital financial inclusion in support of the Sustainable Development Goals (SDGs) aligns with the vision of promoting digital economies that leave no one behind. The vision of UNCDF is to empower millions of people by 2024 to use services daily that leverage innovation and technology and contribute to the SDGs. UNCDF will apply a market development approach and continuously seek to address underlying market dysfunctions.

## THE UN CAPITAL DEVELOPMENT FUND

The UN Capital Development Fund makes public and private finance work for the poor in the world's 46 least developed countries (LDCs).

UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.

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