



Migrant Money

Regional Harmonization of Remittance Policies in the Intergovernmental Authority on Development (IGAD)

DJIBOUTI PAYMENT INFRASTRUCTURE ASSESSMENT REPORT

April 2023

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ABOUT THIS REPORT

The scope of this report draws from the policy diagnostic assessment in Djibouti that identifies key policy areas that require attention to enhance the remittance flows to Djibouti, including modernization of payment system infrastructures. In this context, four key areas have been assessed for the development of modern and efficient payment system infrastructures to enhance remittance flows using digital payment channels.

- Availability of access points for sending and receiving remittances, including automated teller machines (ATMs), merchant point of sale (POS) and cash-in/cash-out agents.
- Access to the National Payment System (NPS) infrastructures by non-bank remittance service providers (RSPs), including mobile network operators (MNOs), money transfer operators (MTOs) and fintech.
- Interoperability for key retail payment systems and instruments including POS, mobile money services and agents. In fact, agent interoperability is currently not available.
- Connectivity with local, regional, and international hubs and gateways as well as multilateral payment platforms.

The report assesses the progress made under each of the four priority areas identified as crucial for National Payments Systems (NPS) infrastructures and provides guidance for future action for both public and private stakeholders to improve the digital ecosystem for increased remittance flows through monitored and regulated digital channels.

ACRONYMS

AML/CFT	anti-money laundering/combating the financing of terrorism
ANEFIP	Agence Nationale de l'Emploi, de la Formation et de l'Insertion Professionnelle
API	application programming interface
ATM	automated teller machine
BCD	Banque Centrale de Djibouti (Central Bank of Djibouti)
BCI-MR	Bank for Commerce and Industry – Mer Rouge
BLA	bilateral agreement
BOA	Bank of Africa
CDD	customer due diligence
DGPF	Direction Générale de la Population et de la Famille
DJF	Djiboutian franc
e-KYC	electronic know your customer
GDP	gross domestic product
IEC	International Electrotechnical Commission
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IOM	International Organization for Migration
ISO	International Organization for Standardization
KYC	know your customer
MFI	microfinance institution
MFS	mobile financial services
MNO	mobile network operator
MOFA	Ministry of Foreign Affairs and International Cooperation
NID	national identification
NPS	National Payment System
POS	point of sale
PSP	payment system provider
QR code	quick response code

RSP	remittance service provider
RTGS	real-time gross settlement system
SIM	subscriber identity module
SMS	short message service
UNCDF	United Nations Capital Development Fund
USSD	unstructured supplementary service data

LANDSCAPE FOR CROSS-BORDER REMITTANCES IN DJIBOUTI

Remittance market overview

Djibouti has an estimated population of 1 million people,¹ and is mainly a transit country, and as such, has the lowest number of migrants abroad among the IGAD Member States. Key migration routes include Somalia and Ethiopia. Since 2009, Djibouti has become a major point on this migration route, and thousands of irregular migrants from the Horn of Africa now use Djibouti as both a country of destination and transit on their journey to the Arabian Peninsula. There are migrants living in Djibouti from Europe owing to the several military bases established in the strategic location in the Indian ocean. According to the World Bank, in 2021, a total of global inbound formal remittances worth US\$65 million, which is 1.8 percent of the gross domestic product (GDP), was sent to Djibouti. France is the source of most remittances and the destination of most migrants from Djibouti, given the close historical links between the two countries. Ethiopia is the second most popular destination for migrants from Djibouti, but the associated remittances are relatively low because of the difficulty in transferring money from Ethiopia owing to exchange control restrictions. Strong political relations between Djibouti and Ethiopia have led to employment opportunities for Djiboutian nationals. Little information on remittance flows to and from Djibouti exists, although, according to the Ministry of Foreign Affairs and International Cooperation (MOFA), remittances to Djibouti are largely sent informally.²

The levels of internet penetration remain low at just 1 percent in 2020, and the digital gap remains large.³ Among the richest 20 percent of the population, 89 percent of households own at least one mobile phone, compared to 41 percent among the bottom 20 percent. The cost of prepaid mobile broadband for low data consumption represents over 12 percent of per capita gross national income. As a result, Djibouti ranks 158 among the 175 countries in the ICT Development Index published by the International Telecommunications Union. Mobile money services are just beginning to emerge with the launch of D-Mobile, a subsidiary of Djibouti telecom. Cash-based transactions dominate domestic trade activities, proving the kind of environment for informal remittances to thrive.

The Government of Djibouti's efforts to improve remittance inflows

The Government has embarked on several initiatives to modernize the infrastructure of its financial markets. This includes the rollout of the National Payment Systems (NPS) at the Central Bank of Djibouti—Banque Centrale de Djibouti (BCD)—such as the Real Time Gross Settlement System (RTGS), and similar plans to automate issuance of national IDs in the future. In April 2022, Djibouti launched the digital economy and innovation roadmap to implement key reforms to promote digitization and innovation initiatives in financial inclusion. With support from the World Bank via an International Development Association (IDA)⁴ grant, a four-year country project was commissioned to help Djibouti implement the legal frameworks alongside the technologies for digital transformation. Among key areas to address includes the

1 UNFPA: <https://www.unfpa.org/data/world-population-dashboard>. (Accessed on 13 May 2022)

2 International Labour Organization, An assessment of labour migration and mobility governance in the IGAD region: Country report for Djibouti (2020), www.ilo.org/wcmsp5/groups/public/---africa/---ro-abidjan/---sro-addis_ababa/documents/publication/wcms_743309.pdf. (Accessed on 18 September 2022)

3 World Bank Group IDA and IFC Country Framework for the Republic of Djibouti. (Accessed in August 2022)

4 International Development Association is a World Bank development institution that offers concessional loans and grants to the world's poorest developing countries.

implementation of a biometric national identity system.⁵

The BCD regulates money transfer and foreign exchange activity in Djibouti under Law No. 119/AN/11/6th L of 22 January 2011. The same law covers the establishment of microfinance institutions. The activity of receiving or sending funds in Djiboutian franc (DJF) or foreign currency can only be exercised by a financial auxiliary or a credit institution. There is also a law No. 196/AN/02/4th L of 29 December 2002 relating to money laundering and confiscation of the proceeds of crime, Law No. 118/AN/15/7th L of 16 July 2016 establishes the National Payment System (NPS), and its regulations and supervision allow the use of agents.⁶

5 World Bank: Djibouti launches digital transformation to improve services to citizens. (Accessed on 9 August 2022)

6 Central Bank of Djibouti, <https://banque-centrale.dj/index.php/missions-de-la-bcd/> (Accessed on 12 June 2022)

KEY STAKEHOLDERS IN THE PAYMENTS AND REMITTANCE MARKET

The Central Bank of Djibouti

The Banque Centrale de Djibouti (BCD) is responsible for licensing and supervising banks that, among others, provide remittance services. The BCD is also responsible for approving partnerships between banks and non-bank RSPs. In July 2022, BCD launched a hybrid large-value payments system consisting of Real Time Gross Settlement System (RTGS), integrated with a cheque clearing and truncation system. Commercial banks have been integrated with the NPS at BCD, allowing for interbank transfers, and bulk payments, among the new processes. BCD plays the role of owner, operator and participant of the NPS infrastructures.

Banks

There are 13 banks in Djibouti, of which three are specialized Islamic finance institutions. Banks do not have a product specifically for the diaspora, due to the requirement in Djibouti for an individual to be physically present during account opening.⁷ Currently non-banking institutions do not participate directly in the NPS, but it is planned to integrate them with the upcoming implementation of an electronic payment switch.

Non-bank remittance service providers

Non-bank remittance service providers (RSPs) are licensed by BCD as financial auxiliaries. There are currently 19 licensed non-bank RSPs.⁸ Currently non-banks do not participate directly in the NPS, however, there are plans to incorporate them fully as per conditions of the IDA grant from the World Bank to support Djibouti's efforts to modernize its National Payment Systems. Most of the clients of non-banks RSPs send small sums of money ranging from US\$100 to US\$500. They are mostly sent to Somalia, Djibouti, Kenya, and Uganda, with Somalia being the busiest corridor. Most of the non-banks RSPs in Djibouti have their branches in major cities and commercial districts.

Mobile money operators

D-Money is a mobile money product provided by Djibouti Telecom. The product is still in its nascent stage. D-money is regulated by BCD and has so far achieved peer-to-peer transfers between mobile wallets. D-mobile wallet is interoperable with mobile wallets of local banks such as the WAAFI mobile wallet, a product of a private bank, Salaam Bank. D-money still operates as a department in the parent company Djibouti Telecom. D-Money is yet to be registered as a separate entity, and cannot bring about a separation of control from ownership, introduce a management structure, and board of directors. Formally registering D-Money as an entity will enable the product to grow as a company and facilitate BCD's role as the regulator of D-Money. D-Money transaction and balance limits are set at 1 million Djibouti francs a day or 3 million a month for individuals, while for enterprises, there is no limit on balance. So far, they have just over 300 agents countrywide, also have plans for cross-border interoperability between Djibouti, Somalia, and Yemen. The three countries are existing corridors in the Horn of Africa.

⁷ Information collected during stakeholder consultations with several retail banks in Djibouti in October 2022.

⁸ Central Bank of Djibouti, <https://banque-centrale.dj/index.php/auxiliaires-financiers/>. (Accessed in October 2022)

Microfinance institutions

There are four licensed microfinance institutions (MFIs) regulated under Law No. 179/AN/07/5th L regulating microfinance activities. Currently, MFIs do not participate directly in the NPS and require partnering with a retail or Islamic banking institution. There are plans to allow MFIs to participate directly in NPS, including the RTGS and the National Switch in the future.

Agents

Law No. 118/AN/15/7th L of 16 July 2016, which establishes the National Payment System (NPS), allows the use of agents. The directive defines activities that can be carried out by an agent, provides a framework to offer agency business services, and sets minimum standards of customer protection and risk management to which agents must adhere. The directive applies to banks, MFIs, payment instrument issuers, and their agents (including super- and sub-agents) that provide agent services in Djibouti. Some banks have agents' networks that are equipped with POS and allow users to send and receive remittances.

NATIONAL PAYMENT SYSTEMS INFRASTRUCTURES

The participants in the payment systems in Djibouti include the BCD, commercial banks, financial institutions, and PSPs. In the last year, the BCD has undertaken several important steps to modernize its payments and financial markets infrastructures such as the Hybrid National Payment System, encompassing the RTGS and the ACH. There are plans to implement a national retail payment switch with the goal of allowing the interoperability of ATMs, mobile money services, and POS networks. MFIs are not yet authorized to connect directly to the NPS infrastructures.

Large-value payments systems

In July 2022, BCD was rolling out a hybrid large-value payment system. The hybrid system is a combination of an Automated Clearing House (ACH) and a Real Time Gross Settlement System (RTGS). It encompasses a Real Time Gross Settlement System (RTGS) for the final settlement of payments between financial institutions. The system will later be used to automate processing or transactions for other government institutions. The ACH's role will be retail payments services, increasing the efficiency, interoperability, and cost-effectiveness of ACH-based payments for both the private and public sectors. All 13 banks are participants in the RTGS. Non-banks are not connected to the RTGS.

Retail/low-value payment systems

As of September 2022, there wasn't an operational national retail payment switch. However, BCD has indicated plans to implement a national retail payment switch project in the future. The national retail payments switch, when operational, will provide interoperability for banks and non-banks, including mobile money. The National Switch will also provide a network that banks can leverage for the interoperability of ATMs and POS. The same can be used to integrate with international networks, and card schemes, including SWIFT, VISA, Mastercard, Union Pay, etc. Non-banks such as RSPs will participate directly with the national retail payments switch when completed. The estimated completion date of the project is at the end of 2023. The government has secured support from the World Bank to establish its retail payments infrastructure, part of the requirement is to allow non-banks such as microfinance, MNOs, and fintechs to participate. These projects would resolve several domestic and cross-border payment infrastructure bottlenecks as far as remittances are concerned.

Private-owned retail payment systems

These include private financial institutions such as banks and MFIs. They implement proprietary or standalone distribution networks to support their own ATMs and POS. The different banks are also implementing digital channels such as internet banking and mobile wallets with limited or no interoperability with the digital channels of other banks. Where there is some level of interoperability, it is with the D-mobile wallet. D-mobile is also a privately owned retail payment system recently launched in Djibouti. There is limited financial market infrastructure to support interoperability of retail payments at the domestic level.

Personal identification cards

The Direction Générale de la Population et de la Famille (DGPF), within the Ministry of Interior, is responsible for issuing national identification (NID) cards, known as the carte d'identification nationale numérique. Djibouti does not have a robust identification system, however, there are plans to roll out national IDs. Currently, there are a few separate identification programmes, with their own databases. These databases are fragmented and are neither interoperable nor harmonized. The Department of Police also issues identity cards. The cards contain historical police and immigration records, records of passport applicants, and information regarding foreigners who are presently living in Djibouti. The documents are handwritten paper records and are not digitized.

Automatic teller machines

The 13 banks have a total of 44 bank branches, excluding head offices, and a total of 110 Automated Teller Machines (ATMs) countrywide. The ATMs serve individual bank account customers with limited or no interoperability with other banks. Customers are served by their respective banks, with a limited choice of cash-out points as far as ATMs are concerned.

Point of sale terminals and cards

As of September 2022, there was not enough data collected regarding POS distribution in Djibouti. However, financial institutions that did provide them mentioned they serve their individual banks and are not interoperable with mobile money or other banks.

REMITTANCE-LINKED PRODUCTS AND SERVICES

The policy and regulatory framework in Djibouti allow banks and financial institutions to introduce digital financial products. Most big banks have domestic digital products that include mobile banking applications for both international and local transactions. All retail banks implement private or standalone ATM networks and digital products with limited interoperability. The digital products include prepaid electronic cards, VISA, Mastercard, and can support remittances or international payments. Through internet banking, alternate use cases are available, for example, bill payment.

For example, Salaam Bank has a subsidiary called “WAAFI”, a mobile wallet innovation launched in January 2022 to broaden the customer base. There are plans to start an agent network of 20 initially, and then scaling up. WAAFI is interoperable with Visa and Mastercard, and handles its RSP business through another entity called Taaj Financial Services. Through WAAFI, customers can transfer money between their mobile (D-mobile) and bank (Salaam) wallets, pay bills, send money, receive money, and self-onboard. There are limits in place for the users, like a wallet balance of 1 million Djibouti francs for an individual while there is no limit for a merchant WAAFI wallet holder. The onboarding process includes a user downloading the WAAFI app and completing all required KYC and submitting. After this validation, the account is activated. This activity takes a maximum of two days. Salaam is one of the institutions with a diaspora account product. However, the same KYC requirements apply, and migrants must wait until the next time they are physically present in Djibouti to start the account opening process.

Dabshiil money transfer⁹, one of the biggest non-bank RSPs in Djibouti, has developed a mobile money product and rolled it out in Somalia called “e-Dahab”. E-Dahab allows remittances to terminate in a mobile wallet in Somalia. The wallet provides other use cases such as P2P, utility, and bill payments. In each of its national branches, Dahabshiil uses a centralized platform securely accessed by authorized users. Settlements and foreign exchange operations are handled centrally, with the system able to adopt and adjust changes in foreign exchange rates, floats, and volumes reports in real-time.

⁹ Dahabshiil is a Money Transfer Operator with a presence in over 30 African countries, including all 7 members of IGAD. It enables migrants to send money to family and friends in East Africa.

ASSESSMENT OF THE PAYMENT SYSTEMS INFRASTRUCTURE FOR DIGITAL REMITTANCES

Retail payments access points for sending and receiving remittances

Context

The usefulness of transaction accounts for payments, or remittance services is augmented by a broad network of access points with wide geographical coverage and by offering a variety of interoperable access channels.¹⁰ The existence of a national-level retail payment infrastructure including ACH, payment card, and mobile money switches, can effectively increase the network of access points (e.g., ATMs, POS, branches, or agent networks) for individual customers. Such centralized payment infrastructures act as hubs for processing interbank transactions and consequently improve interoperability and exhibit positive network externalities for all system participants. Any branch of a bank or other PSP participating in the ACH or switch can be used to initiate a funds transfer to a customer of another ACH or switch participant. This supports countrywide reachability, even if a particular bank does not have access points deployed in specific regions. The success of digital remittance services that use the rails of retail payment systems depends on the availability, quality, and reliability of customer service and access points.

Situation in Djibouti

In Djibouti, bank branches, ATMs, and agent-based POS terminals are important access points to disburse remittances. According to BCD, as of October 2022, 13 banks were operating, with 110 ATMs and 44 agencies. Several banks operate their own agent networks; however, these agents operate on an exclusivity basis. Agents have POS machines, and these can be used for cash withdrawals, including remittances. A challenge in Djibouti is that bank ATMs and POS are not interoperable, and this causes limitations in cash-out points, especially in the rural areas. ICT connectivity challenges can prevent the development of digital alternatives.

Recommendations

The following recommendations could be considered to improve access points for remittances.

- 1. BCD should prioritize completion of National Retail Payments Switch in the short to medium term.** As the RTGS was implemented in July 2022, and banks were invited to participate, the next priority should be given to the national retail payment switch. Establishing a fully interoperable retail payments environment for ATM, POS and mobile money is critical for a domestic retail payment ecosystem, which is the basis for an efficient environment for digitally enabled remittance inflows. This will resolve the need for customers relying on ATMs for individual banks.
- 2. The BCD can prioritize building capacity in interoperability** of retail payment systems. Building capacity will ensure a harmonized approach to messaging standards across all retail payment systems, as well as open the adoption of Application Programming Interfaces (APIs).
- 3. The BCD can ensure the National Retail Payment Switch is interoperable with all retail**

¹⁰ World Bank Group, *Payment Aspects of Financial Inclusion* (2016). Washington, D.C.: <http://documents.worldbank.org/curated/en/806481470154477031/Payment-Aspects-of-Financial-Inclusion>.

payments, including mobile money, as well as exhaust use cases beyond person-to-person (P2P) transfers. Use cases that involve merchant payments would include utility, payments to the government, medical, and education institutions. The use cases should increase coverage and should include women in the design. In addition to providing interoperability, a wider development of the POS and QR code infrastructure at the merchant and the bank agent levels could increase the number of distribution points for remittances and improve banking services for remittance recipients by providing them with access to low-cost electronic payments, eliminating the need to withdraw cash. To improve its effectiveness, the QR code structure should, however, be standardized to promote interoperability and usage. Standardization and its enforcement can be mandated by the BCD or the government.

- 4. BCD can consider promoting an integrated infrastructure interoperable with mobile network operations.** In addition, BCD can facilitate RSPs to work together to reduce the cost of improving the infrastructure. Having shared infrastructure for all payment infrastructures could foster product development, as innovators can focus on specific initiatives and avoid some of the capital and operational costs involved with setting up infrastructure independently.

Access to national payment infrastructures by non-bank remittance service providers

Context

According to the Financial Stability Board Stage 2 report,¹¹ “there are clear advantages to promoting direct access to the national payment infrastructures by non-bank RSPs as this reduces the costs for remittances transfers and time it takes to settle these transactions. Lowering barriers to access improves the possibility for PSPs and payment infrastructures to become direct members of multiple payment systems across different jurisdictions. Similar access requirements in different payment systems can encourage PSPs to become global payment players, serving many jurisdictions. Lower cost and higher speed in cross-border payments with lower credit and liquidity risks would be the targeted outcome.”

Situation in Djibouti

In Djibouti, MFIs and non-bank RSPs do not access the NPS directly. The BCD is yet to have a proper procedure in place to address the risks if the infrastructure is disrupted by information technology failures, cybersecurity threats, or other risk factors. ICT and power failures are frequent in Djibouti and can cause frequent disruptions for ATM/POS availability.

Digital ID and e-KYC platforms are still to be developed in Djibouti. However, as noted above, the digital ID project is being supported by a World Bank IDA Grant. However, by August 2022, little progress on the initiative had been recorded.

¹¹ Building Block 10 describes the importance of direct access. Committee on Payments and Market Infrastructures, *Enhancing Cross-Border Payments: Building blocks of a global roadmap* (2020), www.bis.org/cpmi/publ/d193.pdf.

Recommendations

The following recommendations could be considered to improve the quality of access to NPS infrastructures.

- 1. Allowing strong non-bank RSPs to access the payment systems directly** may be one step ahead. Non-bank RSPs can improve the efficiency of retail payment systems by increasing competition. Increased competition can lower fees and broaden the alternatives open to end-users. Banks may also respond to the competition with innovations of their own; banks and non-banks may cooperate, exploring their respective competitive advantages to drive efficiency gains and generate economic benefits for both partners. Competition between non-banks and banks can serve financial inclusion goals. Unbanked individuals may be able to use non-bank services as an alternative to payment instruments offered by banks. In other situations, non-banks can contribute expertise that the incumbents lack and cooperate with banks to provide innovative services such as mobile payments.
- 2. D-Mobile** is currently a department within Djibouti Telecom. BCD and the Ministry of Communication & Culture can work towards **establishing D-Mobile as an entity** regulated by the BCD. Having a full governance and management structure will enable the product to grow.
- 3. The BCD can encourage banks and non-banks to adopt shared infrastructure** to reduce the cost of implementing access points in non-commercial areas of Djibouti.
- 4. Implementing digital ID, e-KYC, and credit-scoring infrastructures can speed up the digitalization of remittance services.** Currently, Djibouti has no digital-based ID system, and it lacks the necessary infrastructures such as digital ID, e-KYC platform, and credit-scoring systems that facilitate account opening, authentication, and development and issuance of alternative digital products and channels. These infrastructures can be promising solutions to enhance the efficiency of remittance services by promoting greater access to digital products and services, reducing costs for RSPs, and addressing the potential challenges related to de-risking. As part of the evaluation process, in addition to the ease of access and management control, a cost-benefit analysis may be needed to determine if these systems are developed as stand-alone centralized systems or as systems with a common centralized database to ensure authenticity and uniqueness, and to avoid duplication of effort.
- 5. Build resilience in critical retail NPS infrastructures.** The impact of operational incidents could be mitigated, in principle, by building resilience that withstands service disruptions and supports effective business continuity plans. Related to the first recommendation above, BCD needs to: (i) adopt rigorous risk management procedures, in line with global best practices for the identification and mitigation of operational risk, including cyber resilience; (ii) incorporate appropriate redundancy and business continuity arrangements to ensure the timely recovery of the services in the event of a major disruption; and (iii) establish procedures for timely communication to stakeholders of operational incidents. In addition, the BCD could consider conducting periodic, regular disaster recovery drills (both announced and unannounced) to ensure the effectiveness and resilience of the systems operated by the BCD and the other PSOs. These guidelines are based on guidance developed by the Committee on Payments and Market Infrastructures (CPMI) on cyber resilience and other global best practices.

6. The BCD may need to enhance its oversight capacity for new payment services. Djibouti will have a basic instant payment system operational in the market. This has oversight implications for the BCD and should be handled in accordance with new developments in the market.

Interoperability and interconnectivity of domestic and regional payment infrastructures

Context

Interoperability is one of the most desirable characteristics of payments and financial markets infrastructures to ensure infrastructure sharing and widespread availability of digital financial services access points. Whereas the widespread availability of digital solutions for remittances, payments, savings, and credit provides people with access to financial services, payments interoperability enables these targeted people to transfer their money to any other individual without a requirement for multiple transaction accounts, thereby increasing the importance of transaction accounts and their usability.

Situation in Djibouti

Broadly, a lack of domestic and regional interoperability is a challenge for remittances. This partially presents an opportunity for informal channels that present other risks to the users and the country. The lack of a centralized national identification platform is also a key challenge to financial institutions carrying out KYC. As such, physical presence is required when opening a bank account, which is a challenge for migrants who do not frequently travel to their country of origin. Private banks are working in isolation to provide digital products such as internet and mobile banking, ATMs, and mobile wallets. This fragmented approach results in little or no interoperability between the different players. Mobile money interoperability is also limited to domestic person-to-person transactions between mobile money accounts. At the banking agent-level, however, there is no interoperability between bank agents, with each having its own exclusive agents to service its customers. The same applies to bank ATMs and POS, and customers have little choice as to what ATMs and POS devices they can be serviced from. It is more of a challenge in areas further away from the capital city where bank branches are fewer, and the networks that support their ATMs and POS may not reach or are being affected by unreliable power and network connectivity.

At the regional level, limited regional payment systems interoperability and lack of uniformity in codes for cross-border remittances contribute to the high cost of conducting low-value, high-volume payments, and to delays in payment processing times. However, integration between these systems is underway, and the BCD is an active participant, including other regional MNOs, in establishing interconnectivity. The Pan African Payment and Settlement System (PAPSS) is a centralized payment and settlement infrastructure for intra-African trade and commerce payments. It is endorsed by the African Union (AU) and is being developed in collaboration with the African Export-Import Bank (Afreximbank) and will facilitate payments as well as formalize some of the unrecorded trade due to the prevalence of informal cross-border trade in Africa. It will also provide alternatives to current high-cost and lengthy correspondent banking relationships to facilitate trade and other economic activities among African countries through a simple, low-cost, and risk-controlled payment clearing and settlement system. The benefits of PAPSS 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 as well as its own

payments; and strengthening Central Banks' oversight of cross-border payment systems. Some of the goals of PAPSS are:

- To facilitate intra-African trade and provide a mechanism to support and formalize informal and unrecorded cross-border trade.
- Provide an alternative to high-cost and lengthy correspondent banking relationships to facilitate efficient trade and other economic activities among African countries, through an interoperable, efficient, low-cost, and risk-controlled payment, clearing, and settlement system.
- Reduce the reliance on, and cost of foreign currency for intra-African trade; and
- Provide a payment mechanism to support the international trade of African states.

PAPSS is currently live in the West African Monetary Zone (WAMZ) in the six central banks of Nigeria, Ghana, Liberia, Sierra Leone, the Gambia, and Guinea. It uses six local currencies and two languages. Its unique offering is supporting 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 participation.

Recommendations

The following recommendations could be considered to improve the interoperability environment.

- 1. To improve domestic interoperability, the BCD can implement an interoperable National Retail Payments Switch.** This includes providing **a network to support ATM, and POS**, and harmonizing a messaging standard with all participants in the retail payments ecosystem. The interoperable retail payments switch should also have open **Application Programming Interfaces (APIs)** to enable players in the ecosystem to integrate their platforms. Examples are utility companies and other bill-collection services.
- 2. The BCD can establish a clear timeline of when full interoperability will be achieved (for ATM, POS, and mobile money),** including the roles and responsibilities of various stakeholders, and communicate this to industry stakeholders who have the responsibility to resolve their infrastructure and connectivity issues based on timeline and expectations established by the BCD. To streamline this process, the BCD could also consider establishing a working group of banks, mobile money providers, and other RSPs to monitor key milestones related to full interoperability. Lastly, using the stakeholder coordination mechanism as the basis, the BCD should encourage banks to develop appropriate financial literacy campaigns or measures to address their pain points to accept digital payments.
- 3. BCD can also plan for a capacity-building programme** to scale retail payment services. With several critical technology-intensive projects underway in Djibouti, there is a need for capacity-building at the BCD, as well as the participants of the National Retail Payments Systems.

Interconnectivity with local, regional, and international hubs, gateways and multilateral payment platforms

Context

Cross-border payments through the correspondent banking model often involve long transaction chains that lead to fragmented and truncated data standards, high costs of capital, and weak competition, all of which negatively affect payment speed, cost, and transparency. Interlinking of retail payment systems (including fast payment systems) and wholesale payment systems (such as RTGS) allows PSPs to interact directly through the linked infrastructures and reduces their reliance on traditional correspondent banking. Interlinking arrangements can range from simple agreements on cross-participation to full technical integration of systems.¹²

Situation in Djibouti

The use of international hubs is not a common practice by banks in Djibouti. However, Dahabshiil stands out as a regional RSP due to its presence and dominance in the Horn of Africa.

Recommendations

The following recommendations could be considered to improve the interconnectivity with local and regional multilateral platforms.

Once the implementation of National Payment Systems (large value and retail) has made significant progress, BCD can engage regional and domestic hubs and payment gateways. Establishing connectivity with international hubs and gateways will facilitate greater access to digital payment channels. Such service aggregation platforms and remittance hubs allow RSPs to scale quickly and not incur disproportional operational and regulatory costs. These platforms and remittance hubs also have the potential to reduce the distance to access points and the cost of the transaction by facilitating a high number of low-value/low-fee transactions through many access points (or accessible remotely through the Internet or mobile networks).

¹² Building Block 13 describes the importance of interlinking of different payment systems. Committee on Payments and Market Infrastructures, *Enhancing Cross-Border Payments: Building blocks of a global roadmap* (2020), www.bis.org/cpmi/publ/d193.pdf.

ABOUT IGAD

The Intergovernmental Authority on Development (IGAD) is one of the eight regional economic communities (RECs) and building blocks for the African Union. IGAD was established in 1996 to supersede the Intergovernmental Authority on Drought and Development (IGADD) which was founded in 1986. The new and revitalized IGAD was launched during the 5th Summit of IGAD Assembly of Heads of State and Government—Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda—held on 25-26 November 1996 in Djibouti. The Summit endorsed the decision to enhance regional cooperation in three priority areas of food security and environmental protection, economic cooperation, regional integration and social development peace and security. The founding leaders of IGAD were motivated by a vision where the people of the region would develop a regional identity, live in peace, and enjoy a safe environment alleviating poverty through appropriate and effective sustainable development programmes.

ABOUT UNCDF

The United Nations Capital Development Fund (UNCDF) is the United Nations' flagship catalytic financing entity for the world's 46 Least Developed Countries (LDCs). With its unique capital mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the Doha Programme of Action for the least developed countries, 2022–2031.

UNCDF builds partnerships with other UN organizations, as well as private and public sector actors, to achieve greater impact in development; specifically, by unlocking additional resources and strengthening financing mechanisms and systems contributing to transformation pathways, focusing on such development themes as green economy, digitalization, urbanization, inclusive economies, gender equality and women's economic empowerment.

A hybrid development finance institution and development agency, UNCDF uses a combination of capital instruments (deployment, financial & business advisory and catalysation) and development instruments (technical assistance, capacity development, policy advice, advocacy, thought leadership, and market analysis and scoping) which are applied across five priority areas (inclusive digital economies, local transformative finance, women's economic empowerment, climate, energy & biodiversity finance, and sustainable food systems finance).

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