SIIPS Collection

A SPOTLIGHT ON **CROSS-BORDER RETAIL PAYMENT POLICY AND REGULATORY HARMONIZATION**

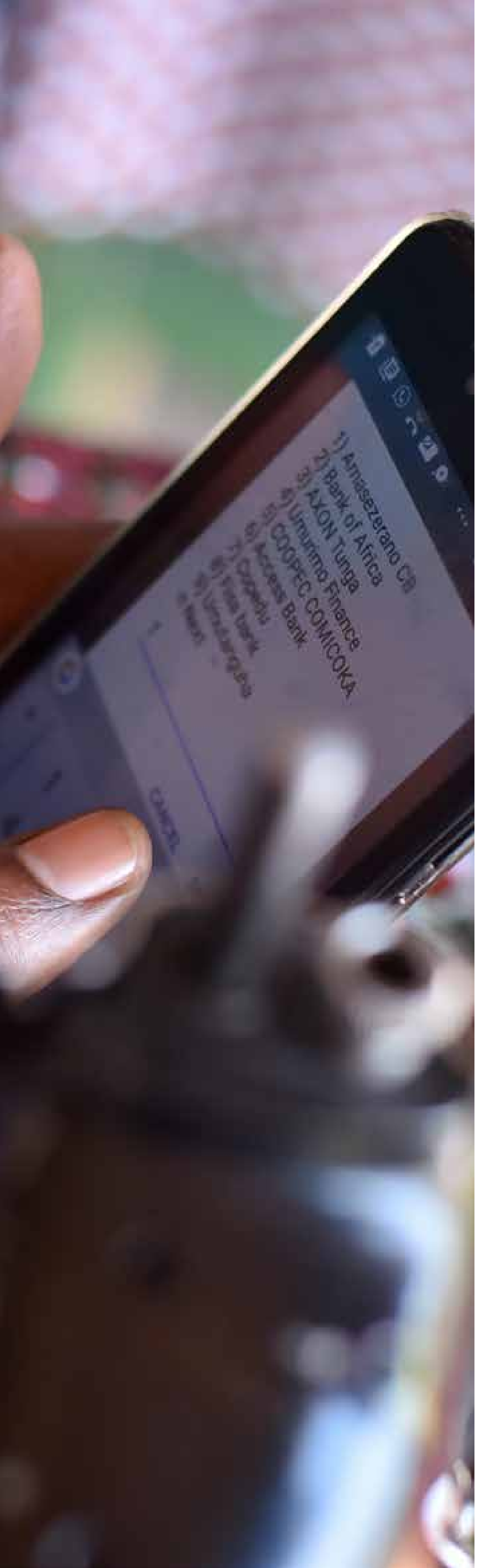
HIGHLIGHTS FROM

THE STATE OF INCLUSIVE INSTANT PAYMENT SYSTEMS IN AFRICA 2023 REPORT

AfricaNenda ACCELERATING INCLUSIVE PAYMENT SYSTEMS

ECA

WORLD BANK GROUP



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This publication is an excerpt from the **State of Inclusive Instant Payment Systems (SIIPS)** in Africa 2023 report, by AfricaNenda, the World Bank Group and United Nations Economic Commission for Africa. It shines a spotlight on cross-border payments and the regulatory context in which they operate, as well as the building blocks for policy harmonization.

Payment regulations and policies are meant to safeguard financial system stability and integrity and provide clarity to the market. As noted throughout the State of Inclusive Instant Payment Systems (SIIPS) in Africa 2023 report, so far, regulations and regulators play a key role in Instant Payment System (IPS) formation, operation, and governance, forming the foundation on which payment systems can thrive. Regulations can also inadvertently introduce friction and misalignment, however if the countries into or out of which cross-border payments pass operate under different regulations. Should this friction cause end-users to avoid leveraging digital channels for cross-border payments, it can have a negative impact on trade and remittances, and by extension on the scale potential of regional IPS.

This excerpt publication from the SIIPS in Africa 2023 Report, delves into actions that may break down cross-border regulatory barriers and enable remittances (P2P transfers), MSME trade payments (B2B), and cross-border merchant payments (P2B). These are the core of cross-border retail payments. The excerpt outlines the current state of cross-border payments, the challenges that exist with them, and the opportunities and approaches to regulatory harmonization that could increase digital retail payments. Exemplars from African and international regions and their respective regulatory bodies are also included.

1.0 Why is regulatory harmonization important?

There are several current issues in cross-border retail payments that are impeding progress. For IPS to help address these issues, stakeholders must understand the regulatory obstacles that directly affect IPS participants (i.e., payment service providers) today and take steps to harmonize them. Regulatory harmonization is a key policy tool governments and regulators can deploy to empower providers to serve more markets on the continent, which is central to the G20 roadmap for enhancing cross-border payments (FSB 2022).

1.1 Cross-border retail payment challenges

Wholesale payments run on well-developed payments rails, including international wire transfers. That's not true of retail cross-border payments in most African corridors. As a result, retail cross-border payments are expensive, inaccessible to many users, and are largely informal. We explore each of those issues in greater detail below:

Formal remittances corridors remain expensive

Sub-Saharan Africa (SSA) is the most expensive region in the world for sending remittances, which are personal transfers by migrants living abroad; they have an average cost of 7.8% (World Bank 2022a). Remittances are a direct lifeline for many households on the continent. In addition to supporting families and communities, these flows are a way for many people in the diaspora to maintain community connections while contributing to development back home.

For some countries, formal remittances account for a large proportion of GDP—for example, in 2021, remittances to The Gambia and South Sudan were equivalent to 28% and 25% of GDP, respectively (World Bank 2021f). These P2P transfers support day-to-day household expenses, education, health care, investment, real estate, insurance, and life events in households and communities across the continent (Gupta and Pallito 2009; Hassan and others 2017). Expensive intra-Africa remittances are particularly damaging to household finances, as more migrants stay within Africa than leave for other parts of the world: as of 2020, 21 million Africans immigrants were living on the continent, while fewer than 20 million were living abroad (IOM 2022).

Retail B2B and P2B payment options across borders remain inaccessible even though regional trade is on the rise

Few cross-border payment systems enable B2B and P2B payment options. Cash is still the preferred channel. For example, 80% and 75% of cross-border traders sampled in the COMESA region use cash when purchasing and selling goods, respectively (AfricaNenda 2022a). Roughly 80% of retail cross-border traders operating between Eswatini, Mozambique, South Africa, and Zimbabwe pay their suppliers in cash (FinMark Trust 2021c).

Regional trade links nonetheless are steadily gaining strength. In 2016, intraregional trade in SSA represented 20% of total exports versus 4% in the 1990s (IMF 2018b). Intra-regional trade is expected to continue to increase, aided by the Africa Continental Free Trade Area (AfCTA) agreement. Digital trade is poised to play a pivotal role in achieving the AfCFTA's goals, as it is one of the catalysts to increase intra-African trade from its present level of 18% to an estimated 50% by 2030 (United Nations 2020). Inclusive Instant Payment Systems (IIPS) will play a key role in providing the necessary digital rails for intra-Africa digital trade enablement.

Most migrants and businesses opt for informal methods for sending money inside of Africa

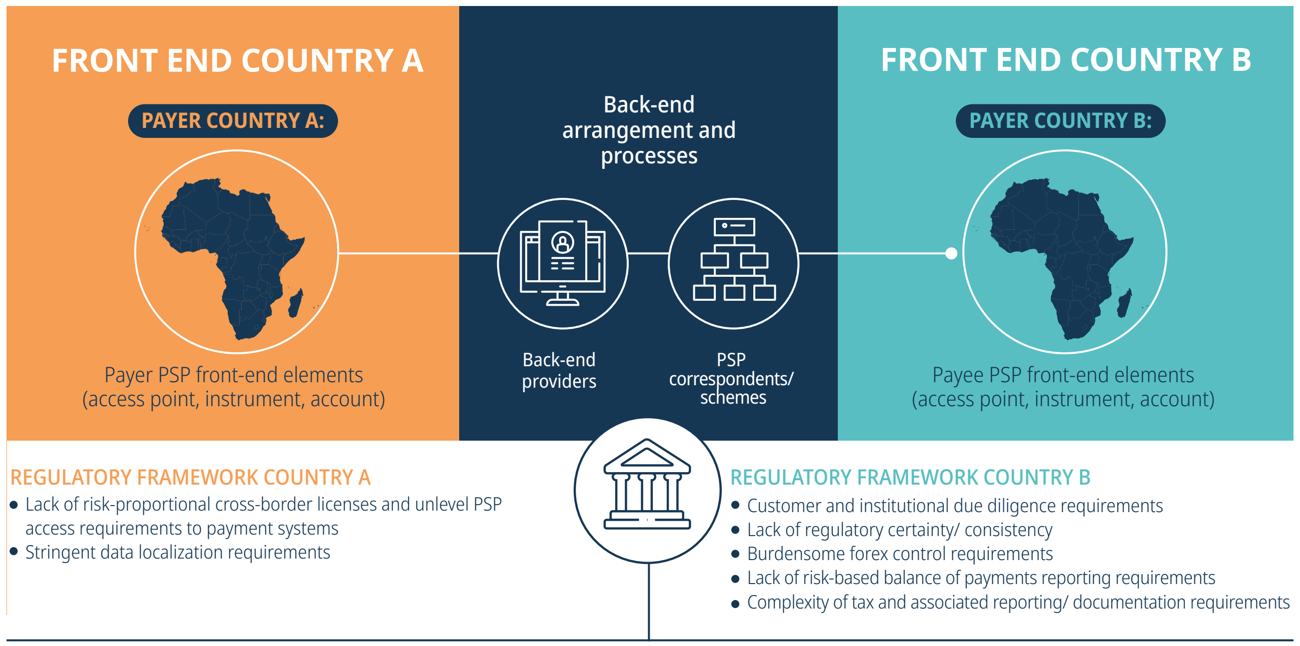
MSMEs and migrants often opt to send money informally to meet their cross-border payment needs. Informal channels include social networks (i.e., friends or family), the use of public transport providers to carry money, or hawala systems (GSMA 2018a).[1] Informal remittance payments are difficult to accurately account for given a lack of data and monitoring. Between South Africa and other SADC countries, 70% of cross-border remittances are conducted through informal channels. Likewise, 81% of remittances in and out of the Democratic Republic of Congo are estimated to be informal (FinMark Trust 2018). Informal cross-border payments can be less secure for payers and payees, can circumvent tax regimes, and can contribute to money laundering or terrorist financing.

1.2 Regulatory barriers to cross-border financial flows

Fit-for-purpose regulation has significant potential to lower the barriers of high cost, inaccessibility, and informality. Stakeholder interviews highlighted the significance of legal and regulatory regimes and requirements among provider operational costs. Compliance costs include licensing requirements, customer and institutional due diligence, and foreign exchange restrictions.

The complexity of cross-border payments is not limited to the jurisdictions involved in sending and receiving funds. Various channels and entities are involved, such as currency instruments, exchanges, correspondents, payment processors/operators/platforms, and settlement agents. Players operating in multiple jurisdictions must abide by all the requirements promoted by each country, creating uncertainty about which laws, regulations, and practices apply or take precedence, especially when laws between jurisdictions contradict one another. Regulatory barriers occur throughout the cross-border retail payments value chain (Figure 1.0).

FIGURE 1.0 | Regulatory barriers along the cross-border retail payments value chain



Sources: World Bank 2022e; Cenfri 2018a

1 Hawala is an informal way of transferring money, without physical movement, through a network of dealers known as hawaladars. Hawala's distinctiveness lies in the trust-based relationship between hawaladars, often based on family village, or ethnic connections (Corporate Finance Institute 2022).

Disparities in regulations and processes across jurisdictions can lead to increased costs, reduced market access, and/or slowed transaction speeds for providers (Table 1.0).

TABLE 1.0 | Barriers to cross-border retail payments for PSPs

Regulatory barriers for PSPs	Impact on PSP		
	Increases cost	Reduces market access	Slows speed of transaction
a. Lack of risk-proportional cross-border licenses and level playing field in payment system access			
b. Conflicting or misaligned CDD requirements			
c. Burdensome foreign exchange control requirements			
d. Stringent data localization requirements (cloud data storage prohibited)			
e. Lack of simplified and proportionate balance of payments reporting requirements			
f. Differing tax regimes and associated reporting/documentation requirements			
g. Lack of regulatory certainty/ consistency			

Sources: Cenfri 2018; Stakeholder interviews 2023

Degree of impact on PSP High Medium Low

The regulatory barriers summarized in Table 1.0 create the following challenges:

Lack of risk-proportional cross-border licenses and level playing field in payment system access

The licenses given to PSPs, regardless of whether they are deposit-taking banks, or non-deposit-taking fintechs, are often not tiered according to the risk the institution poses to the financial system. A lack of proportional licensing results in onerous requirements for institutions involved in cross-border payments. While stringent prudential requirements are appropriate for large banks and deposit mobilization institutions that have multiple revenue streams and high complexity, PSPs with simpler products and no involvement in customer deposits do not pose the same risk to the financial system and thus should not be subject to the same requirements.

A blanket approach to licensing can cement the dominance of banking institutions in the cross-border payments space and limit competition because non-bank PSPs cannot afford to bear the prohibitive costs of compliance. Supervisors often cite a lack of resources and skills on their part as the reason for blanket requirements, but using a restrictive licensing approach discounts the importance of competition and risk-based supervision.[2] Domestic regulators in different countries also have varying approaches and standards around requirements for PSP access to payment systems (World Bank 2021a). This results in an uneven playing field for non-bank and bank PSPs.

2 In the Intergovernmental Authority on Development region, the regulatory framework for non-bank PSPs imposes similar obligations as they do for bank institutions—this is the case for Djibouti and Uganda (UNCDF 2022a). The example highlights the case where domestic regulatory regimes do not have a distinguished licensing system for non-bank and bank PSPs respectively.

Misaligned customer due diligence (CDD) requirements

Different countries on the continent use varied approaches to customer due diligence (CDD) and institutional due diligence. In African markets, the know your customer (KYC) regulations and guidelines are challenging to navigate from one country to another and do not yet comprehensively follow the Financial Action Task Force (FATF)'s recommended risk-based approach. Electronic KYC (eKYC) guidelines are even less aligned. In SSA and North Africa, only 55% and 50% of sampled countries, respectively, had provisions for eKYC in regulation (CCAF 2021, CCAF 2022). Within the countries that do have provisions, there are different guidelines on what to comply with, how much compliance is necessary, and what constitutes effective risk mitigation.[3] As a result, PSPs default to collecting an array of documentation to avoid fines or reduce the risk of losing correspondent banking relationships. Proof of address, source of income, import and trade licenses for B2B transactions, and business licenses for MSMEs, among others, are exclusionary requirements for many prospective customers.

Not only do cumbersome CDD requirements lead to higher operational costs and limit access to end-users, but in the absence of a risk-based approach, PSPs are effectively focusing on compliance rather than on monitoring money-laundering or terrorist-financing risk. Whereas compliance risk refers to risk of failing to comply with regulations and legislation (with non-compliance leading to fines or other disciplinary measures), money laundering, terrorist financing, and proliferation financing risk relates to the extent to which a product, client, institution, or sector can be exploited for illicit activities.[4]

Many countries are on the FATF grey list because they do not effectively measure and understand AML/CFT/CPF risks at a country level. Grey listing can lead to the termination of correspondent banking relationships and has other, economy-wide consequences due to a decrease in foreign capital. This can exacerbate operational issues for PSPs. Ten out of the 23 countries under increased monitoring on the 2023 grey list are in Africa: Burkina Faso (since 2021), the Democratic Republic of Congo (2022), Mali (2021), Mozambique (2022), Nigeria (2023), Senegal (2021), South Africa (2023), South Sudan (2021), Tanzania (2022), and Uganda (2020). Most of these countries substantially rely on remittances (FATF-GAFI 2023a).

Burdensome foreign exchange control requirements

Foreign exchange control requirements are disproportionately onerous for some PSPs. The enforcement of foreign exchange controls, especially for non-deposit-taking institutions, means cross-border payments need prior review by regulators or government authorization before execution, depending on factors such as the destination country or the send amount. For instance, money in WAEMU cannot be sent outside the region without going through a local bank and providing supporting documentation (Cenfri 2018b). Many transactions must be conducted through bank branches and/or authorized foreign exchange dealers. Some jurisdictions have adopted tight foreign exchange rate management regimes, which can have expensive consequences for formal cross-border PSPs. For example, Nigeria's tight exchange rate controls, sparked by a plunge in oil prices and foreign exchange revenue, led to large parallel foreign exchange markets and significant impacts on the formal cross-border payment industry (World Bank 2017a).

3 In the SADC region, the requirements around timing and verification of a customer's identity differ across countries—e.g., in Angola, AML laws permit PSPs to complete the verification of a customer's identity as soon as reasonable after the establishment of the relationship, whereas Botswana, the Democratic Republic of Congo, and Lesotho do not allow for this approach (FinMark Trust, 2014).

4 While non-compliance can lead to fines or other disciplinary measures, money laundering or terrorist financing risk can lead to serious threats to the financial system and end-users. These two risks are different and should be understood separately. An institution can have low compliance risk because it follows all the regulatory requirements (onboarded users have proof of address documents and identity documents) yet their AML/CFT/CPF risk can be high if rules-based risk management approach makes it easy for criminals to circumvent the system.

Stringent data localization requirements and prohibited cloud data storage

Stringent data localization requirements affect PSPs' ability to operate in different jurisdictions. In addition to higher costs due to duplicative data servers, a poorly installed local data server can introduce data security risks for a jurisdiction compared to cloud computing or shared data centers, which often have more rigorous risk containment capabilities (Yayboke and others 2021; Kugler 2021). Cloud storage instead of physical data storage in servers within a country's borders can still ensure data privacy and sovereignty for customers and nations, respectively. For example, South African PSPs must comply with a stringent set of requirements to use offshoring and cloud computing services (South African Reserve Bank 2020).

Lack of simplified and proportionate balance of payments reporting requirements

The balance of payments (BoP) is a vital source of information for a country—it specifies information on important economic indicators, including remittances, to allow for comparison across countries (UNCDF 2022c). The process of submitting BoP reports to central banks can be burdensome for payment providers, however, due to the lack of standardization of remittance codes associated with transactions. Therefore, manual consolidation of different remittance codes is needed for the different supervisors, including reason for transfer.

An overly detailed BoP list can lead to data inaccuracies, as the reasons for sending a transfer can be overwhelming and not mutually exclusive. As a result, some PSPs choose default/blanket codes, such as "family support," that are imprecise or incorrect and thus distort BoP data accuracy (IMF 2022a). In addition, the reporting requirements vary across jurisdictions, which makes process automation challenging. Some partner institutions require detailed BoP declarations, and some receiving remittance cash-out payments will not approve a transaction until the BoP is reported and formal trade documents (e.g., bills of lading, invoices) are provided. This disproportionately affects smaller PSPs who do not have the capacity or funds to streamline the process through automation. Requirements, such as for invoices that are tied to BoP declarations, can discourage end-users from conducting formal transactions.

Differing tax regimes and associated reporting/documentation requirements

Cross-border PSPs must abide by the varied tax systems of multiple jurisdictions, including submission of numerous documents, all of which raises the cost of providing cross-border payments services.[5] As an additional barrier, tax authorities in different jurisdictions are increasingly seeking to pre-emptively tax trans-national digital transactions and proceeds, including remittance receipts for family support, which are considered taxable income for recipients. In some countries, cross-border transactions to a mobile money wallet result in additional tax costs to the recipient. These taxes reinforce the appeal of cash, as they do not apply to over-the-counter cross-border transactions. For example, in Uganda, a 1% levy imposed on all mobile money withdrawal transactions, including remittances, in 2018 was quickly cut to 0.5% following public pushback and a 24% drop in transaction values (UNCDF 2021a).

The 1.75% e-levy imposed on all electronic transactions, including remittances, in Ghana was reduced to 1.5% and then 1% in January 2023 (Ghana Revenue Authority 2023). Cameroon introduced a 0.2% mobile money tax in 2022 while Zimbabweans have paid since 2018 the highest money transfer tax (2%) in Africa.[6]

The US Foreign Account Tax Compliance Act requires foreign financial institutions to report all accounts owned by US citizens and other covered individuals (i.e., green card holders, permanent residents) directly to the United States Internal Revenue Service (IRS). The PSPs must register with the IRS, irrespective of whether they receive payments directly from US sources. Subject to certain limits and circumstances, PSPs may be required to report KYC/CDD, private customer data, detailed balances, and transaction information (SARS 2023). These taxes and their associated compliance requirements can severely undermine PSPs' ability to reach scale, as remittance senders and receivers alike are driven to the informal market to avoid transaction-based taxes. (World Bank 2017b).

5 The East African Business Council highlighted how the harmonization of EAC domestic taxes are key issues for PSPs (East African Business Council 2021).

6 The Intermediate Money Transfer Tax is a direct tax chargeable on whenever a financial institution mediates the transfer of money except through check. It includes US Dollar nostro accounts as well as the transfer of money from mobile money transfer agents to recipients and thereby will be incurred by all cross-border IPS that terminate in a bank account or mobile money wallet (KPMG 2022).

Lack of regulatory certainty/consistency

The absence of clear and consistent regulations and guidance leads to varying interpretations by PSPs, banks, and correspondents, causing confusion about compliance requirements and standards. This can happen when regulators pass new regulation without providing corresponding guidance on how to handle the changes. In Ghana, for example, the AML Act of 2020 was aligned with global standards, but the regulatory guidance is based on a previous defunct law. In South Africa, an obsolete AML/CFT law and regulation has become conflated with foreign exchange regulation in practice by the regulator and supervised institutions alike. In Nigeria, frequent regulatory changes cause immense operational challenges.

Waiting times for licenses, especially for non-bank PSPs, can be prohibitive in many countries: up to seven years, according to stakeholders (Stakeholder interviews 2023). Thus, even when systems are ready to be implemented, licensing issues can get in the way.

A governance mismatch can develop furthermore when regulation cannot keep up with innovation. This happens, for example, when services do not neatly fit within the existing regulatory framework. The involvement of multiple regulators (e.g., the payments and telecommunications regulator) in licensing can further delay onboarding, lead to operational delays, drive up costs, and restrict significant portions of the cross-border payments market (Stakeholder interviews 2023).

In addition to regulatory issues that are the focus of this excerpt, operational barriers, highlighted in Box 1.0, place further constraints on the potential of cross-border payments to scale.

BOX 1.0 | Operational barriers for cross-border payments include inconsistent messaging standards, stringent requirements set by correspondent banks, expensive liquidity management, and costly and opaque foreign exchange pricing

Inconsistent messaging standards—PSPs can incur significant costs when integrating and translating messages across entities and countries with disparate standards, such as translating from ISO 20022 to ISO 8385 or proprietary standards (BIS 2022b). Upgrading to ISO 20022 is complex and costly. Differing mandated messaging standard frameworks between jurisdictions can complicate interoperability, particularly between countries with nascent financial sectors and those with significant investment in legacy infrastructure, found to varying degrees across EAC and SADC. Countries with significant fintech programs—including Kenya, Mauritius, Nigeria, and South Africa—must contend with gaps between innovative, proprietary messaging and interoperable, cross-border, ISO-based messaging. Format validation is performed at distinct stages down the chain between senders and recipients. Even one missing colon could cause the transfer to fail. The complexities between different standards require integrating layers that add new potential points of failure and can be both operationally challenging and costly.

Stringent requirements from correspondent banks—Correspondent banks bridge funds between cross-border and domestic payments. However, they are increasingly difficult to access, especially for African PSPs. Since the global financial crisis in 2008, more global banks have selectively withdrawn from correspondent banking. Reasons include changes in the regulatory and enforcement landscape, economic and trade sanctions, AML/CFT/CPF concerns, and increasing compliance costs (IMF 2017). The scarcity of correspondent bank relationships has led the banks to leverage their market power by unilaterally dictating the terms of relationships with PSPs and enforcing stringent requirements in terms of reporting, capital, and processes. For instance, a correspondent bank may require that transactions be settled in the US dollar; this adds a layer of extra-territorial US regulatory requirements, such as monitoring of trades and accounts for compliance with US Foreign Corrupt Practices Act and Office of Foreign Assets Controls, regardless of the country of origin and receipt. This increases a PSP's operational costs amid a reduction in the availability of foreign exchange arrangements.

Expensive liquidity management—Liquidity management imposes disproportionate costs on PSPs due to partnership costs and challenges with cash flow guarantees. Furthermore, there is competition for liquidity between domestic payment systems and cross-border systems. The liquidity costs arise because of the number of correspondent accounts requiring pre-funding to facilitate instant payments. This results in unproductive liquidity, which is often the largest asset on the balance sheet of a new PSP (Stakeholder interviews 2023). This unproductive use of capital makes PSPs engaged in cross border retail payments less competitive compared to other PSPs. In addition, the preference for cash by many end-users makes managing liquidity costly for PSPs. An effective cash float system that allows agents and other access points to manage liquidity effectively relies on partnerships with cash-heavy businesses or a concentration of access points closer to bank ATMs or branches.

Costly and opaque foreign exchange pricing—Currency exchange rates are a significant contributor to high remittance prices. Cross-border retail payments, especially remittances, are a major source of hard currencies for African economies. There is limited demand, and thus trade, between illiquid African currencies, partly due to the fixed exchange rates and foreign exchange controls that negatively impact the demand (BIS 2019). The actual foreign exchange spread is often much higher than the wholesale rate (official rate) given the lack of a foreign exchange market where currencies can be traded at competitive rates. The result is a dual exchange of currencies that are converted into and then out of hard currencies such as the US dollar. Partner institutions, who take on-the-spot currency risk, inflate the spread to improve average profitability, especially where foreign exchange is at the core of their business model. Foreign exchange pricing practices also lack transparency, which prevents the partner as well as the end-user from understanding the mark-ups on the foreign exchange spread.

2.0 | Which regulation should be harmonized?

Regulatory harmonization could generate significant gains for the entire cross-border payment value chain in Africa. Aligning pertinent laws and reducing regulatory grey areas through harmonization (see Box 2.0) would benefit all participants in the payments ecosystem by promoting competition, reducing costs, and increasing transaction speed. Creating compatible PSP licensing regimes and reporting requirements would enhance the value proposition for both smaller, innovative PSPs and established PSPs to operate across borders.[7] Greater competition among PSPs can result in cheaper, faster, and more accessible cross-border payment options for end-users.

Harmonization of several key pieces of regulation and legislation will benefit cross-border payments. Figure 2.0 outlines the key regulatory and legislative frameworks that are core to the barriers for PSPs. As each country has a different legal structure, the focus areas in Figure 2.0 can fall under different regulations or legislation.[8]

BOX 2.0 | Definition of harmonization

Regulatory harmonization is defined as the alignment of disparate regulatory processes and services or mutual recognition of policies and regulatory frameworks and standards (adapted from UNCDF 2022).

Harmonization is based on the three principles: cooperation, trust, and co-recognition. Cooperation ensures regulators work together to promote the development of good practices or use of a common denominator in payment regulations and policies (OECD 2020). With trust, regulators believe their peers will act consistently with their expectations. Regulators reach a state of co-recognition when the respective jurisdictions acknowledge one another's regulatory regimes, and align domestic regulation, guidance, processes, licensing, and reporting requirements based on their mutual undertakings and consistent with their common goals.

7 For example, 67% of cross-border bank PSPs in Eastern Africa cited that their presence in different jurisdictions has allowed them to gain the scale necessary to introduce financial products that would not have been feasible in a single country (World Bank 2011).

8 For example, in the Intergovernmental Authority on Development region, Djibouti has no stand-alone consumer protection legislation. Instead, Law No. 28/AN/08/6ème relates to protection, repression, and fraud. In addition, different aspects of consumer protection are found in other laws depending on the subject matter. In contrast, there are specific financial consumer protection guidelines in Uganda and South Sudan (UNCDF 2022a).

FIGURE 2.0 | Areas of regulation to harmonize

Sources: UNCDF 2021; Stakeholder interviews 2023

Central banks are key players in cross-border payment harmonization initiatives, as they hold the power to drive regional coordination through regulatory reforms. PSP licensing and supervision, monetary policy (which affects the foreign exchange regime), and payment system data standards and format typically reside in their mandates, and they also commonly have some degree of control over KYC/CDD and AML/CFT/CPF frameworks, and financial consumer protection regulations (UNCDF 2021b). Other relevant domestic government entities include ministries of trade and industry and information and communications technology/digital technologies. Dedicated agencies or specific laws govern data privacy, data sharing, data protection, as well as trade laws.

As shown in Figure 2.0, there are eight key areas of regulation that would benefit from harmonization across jurisdictions to improve access to and usage of cross-border retail payments. **These regulatory areas fall into three categories—access to market, ease of conducting payments, and PSP operations—as follows:**

Access to markets

PSP licensing and supervision regimes—These could encourage risk-proportionate licenses that can be met with substantially similar requirements to serve lower-income end-users. This includes alignment in license requirements for PSPs to engage in the transfer of cross-border payments, and a prudential and supervisory risk-based approach adopted for varying entity types. Across Union du Maghreb Arabe (UMA) countries, for example, divergent approaches to the regulation of e-money across the region (CCAF 2021b), have resulted in stringent requirements for smaller, non-bank payment providers. Harmonization would lead to increased innovation in cross-border payments products as more PSPs would be able to offer cross-border payments services and not be restricted by onerous licensing requirements.

Foreign exchange regimes—Harmonization across regimes could simplify the reporting process for PSPs and give them access to foreign exchange at competitive rates. Complex regimes with inefficient or manual upfront processes, including asking for release of payments by authorities, can negate any time advantage of IPS over fast and robust informal offerings, and operational costs spiral with each additional layer of compliance and third-party due diligence imposed by different parties in the value chain (Stakeholder interview, 2023). These regimes can also dictate the type of provider that is allowed to deal in foreign currency, thereby leading to distorted markets where foreign exchange rates are overly expensive for value chain partners.

In addition, over the longer-term, authorities must scale down the use of hard currencies like the US dollar for cross-border settlements, lower the cost and administrative burden that comes with correspondent banking due diligence, and reduce additional and burdensome exchange margins on PSPs.[9] The administrative, investigative, and reporting burden that US and EU revenue authorities place upon PSPs, even those with no US or EU citizens among their customer base, is onerous and costly. Finally, monetary policy needs to address the current system of floating exchange rates at every correspondent bank per currency pairing for PSPs, which leads to mounting expenses.

Foreign trade laws—These define how negotiated trade positions apply to existing laws and regulations. Trade agreements and associated foreign trade law could create a single standard for the mutual acceptance of e-money for cross-border application. Harmonization of high-level payments frameworks, acceptance principles and standards within regional and continental trade agreements or multilateral treaties could help simplify transaction BoP codes, due diligence, and documentary requirements that PSPs abide by to facilitate cross-border payments more effectively.

9 When it comes to the tradability of currencies, central banks often have rules that prevent people from taking notes from other countries and holding foreign currency accounts. This directly affects how monetary policy is carried out. Central banks need to manage their foreign reserves well, especially when it comes to buying important things like fuel. This is why they often require dollars from neighboring countries.

Ease of conducting payments

AML/CFT/CPF laws—Implementing evidence-based and risk-proportionate approaches can reduce the compliance burden on lower-income end-users and the PSPs that serve them. A risk-based approach, aligned with regional risks, will increase regional risk management effectiveness, addressing the onerous AML/CFT/CPF cross-border compliance requirements that exist today. Harmonization would lead to fit-for-purpose AML/CFT/CPF requirements regardless of jurisdiction or corridor, retaining enhanced due diligence for higher-risk products and/or end-users, while reducing overcompliance for lower-risk constituents.

Aligned KYC/CDD frameworks, especially around eKYC—For end-users and institutions, this could limit the burden of gathering and confirming identity documents during onboarding and re-certification processes. For instance, COMESA Business Council (CBC), in their model policy framework on digital retail payments, recognized that across member states, proportionate risk-based approaches for KYC/CDD were incoherent or completely absent (Comesa Business Council 2021). Different frameworks must align requirements related to documentation and proof of identity used for KYC, permissions for the use of customer data via eKYC, ongoing monitoring required for CDD, and institutional due diligence standards between PSPs. PSPs are more willing to interoperate when CDD processes can be trusted across institutions and the KYC document burden decreases. Harmonization would lead to appropriate KYC requirements for end-users and risk-based CDD processes for PSPs, in line with national or regional risk assessments.

PSP operations

Common or compatible payment system standards—Standardization around messaging and security, to name two examples, are important elements to harmonize across borders so PSPs do not have to engage in the costly exercise of adapting to different standards in various jurisdictions. Harmonization would lead to reduced operational costs for PSPs due to simpler integration across payment systems and value-chain partners in cross-border payments. SWIFT is still relevant almost 50 years since its inception due to a shared messaging standard and secure communication protocol aligned with its members' needs, as well as a continuous drive for modernization and relevance. EMV operates along similar lines. An African standard for payments can be the foundation for more effective cross-border payments.

Consumer protection laws—By harmonizing them, regulators can simplify reporting and operational requirements for PSPs at the regional level and ensure customer disputes are handled appropriately. Complaint and dispute resolution processes, as well as disclosure and transparency, should be prioritized for alignment. Harmonization would give end users and PSPs assurance that transactions have equal protection regardless of origin.

Data-related regulations—Aligning provisions related to data localization requirements and the use of data required for cross-border payments can reduce operational costs and complexities for PSPs. Existing regulations create complicated and burdensome compliance requirements, especially where domestic server deployments are required. For example, all licensed banks in Rwanda are required to maintain their primary data within the country's borders. Similarly, Ugandan e-money issuers must keep primary data centers for payment systems within Uganda's borders (Kugler 2021).

In harmonizing regional or continent-wide standards, clear provisions can be made to ensure that cloud-based data storage protects the principles of national data sovereignty and personal data rights. Security risks can be thoroughly assessed and mitigated without applying overly stringent local data storage requirements. Harmonization would lead to common approaches to modern data storage solutions that can enable innovative business models in cross-border payments without forcing PSPs to build redundant infrastructure.

The African Union, regional economic communities (RECs), as well as monetary zones such as WAMZ, and monetary unions such as CEMAC and WAEMU, together with their respective partners, have been working to harmonize payment-related laws and regulations, with the aim of creating a more seamless and efficient payment environment within their respective regions. Box 2.1 provides an overview of the ten combined RECs, monetary unions, and zones. These regional institutions are central to the harmonization of cross-border retail payment regulation and policy. Table G.1 in the SIIPS in Africa 2023 report annex, lists various associated executive bodies. The regional bodies have mandates to foster cooperation and collaboration, including in cross-border payments.[10] They regularly convene with central bank representatives, setting regional policy goals that the central banks then execute domestically. Table G.2 in the SIIPS in Africa 2023 report annex, shows where research has noted divergence in the regulatory areas mentioned throughout this chapter, while Table G.3 lists the various initiatives that are ongoing.

10 The SADC Payment System Oversight Committee (PSOC), for instance, was established to provide cooperation and coordination among central banks with regards to a cross-border payment strategy (Committee of Central Bank Governors, 2021). Likewise, ECOWAS was created with the main objective of promoting cooperation and integration to create an economic monetary union, which implies alignment in financial sector-related regulations and policies (Zoma & Wendpanga, 2022).

BOX 2.1 | Regional economic communities in Africa

There are seven regional economic communities (RECs), one REC and monetary union, one monetary union, and one monetary zone in Africa that are referred to for the purposes of this study:

RECs:

- **UMA** was established in 1989 with Algeria, Libya, Mauritania, Morocco, and Tunisia as its members.
- The fifteen member states of **ECOWAS** are Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. The ECOWAS Treaty was established in 1975.
- **SADC** was formed in 1992 and includes Angola, Botswana, Comoros, the Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, and Zimbabwe.
- The **EAC** is an intergovernmental organization composed of seven countries in the Great Lakes region: Burundi, the Democratic Republic of Congo, Kenya, Rwanda, South Sudan, Tanzania, and Uganda. It was founded in 1967 and revived in 2000.
- **COMESA** is a regional economic community formed in 1994 with Comoros, Djibouti, Egypt, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tunisia, Zambia, Zimbabwe.
- **IGAD**, established in 1996, comprises eight Eastern Africa countries—Djibouti, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda (Eritrea is currently inactive).
- The member states of **Economic Community of Central African States (ECCAS)** are Angola, Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda, and São Tomé and Príncipe. ECCAS was formed in 1983.

Monetary zones and unions:

- REC and monetary union: **CEMAC** is an organization of states established by Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon established in 1994. CEMAC formed a monetary union with the Central Africa CFA franc as the common currency in 1999.
- Monetary union: Established in 1994, **WAEMU** is an organization of eight mainly francophone West African states, including Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau (non-francophone), Mali, Senegal, and Togo. WAEMU member states share the West African CFA franc as a common currency.
- Monetary zone (no shared currency): Formed in 2000, the **WAMZ** is a group of six countries within ECOWAS—The Gambia, Ghana, Guinea, Nigeria, and Sierra Leone—who founded the organization together in 2000, and Liberia who joined in 2010.

Initiatives are mostly run by regional bodies with assistance from external organizations. The established regional bodies often lead with financial and technical assistance by development partners such as the African Development Bank (AfDB), the United Nations Capital Development Fund (UNCDF), and the World Bank. RECs are important forums to identify themes for domestic decision-makers who can initiate the domestic regulatory changes required. External development organizations have proven instrumental in the process as well, however, bringing in expertise and neutrality where political agendas diverge. The respective domestic/regional central bank(s) are well-positioned as change agents and advisors to central government in cases where legislative reform or amendments are necessary for aligning laws across the region.

3.0 | How to harmonize regulation?

Global policymakers and regulators can contribute to the efforts undertaken by African central banks and executive bodies to drive harmonization. However, the sequencing and balance of domestic regulatory changes and regional initiatives need to be carefully considered. Incorrect sequencing can result in ineffective or inaccessible harmonization. Diagnostics assessing the regional regulatory payment landscape and existing gaps can guide domestic regulators on where to direct their efforts.

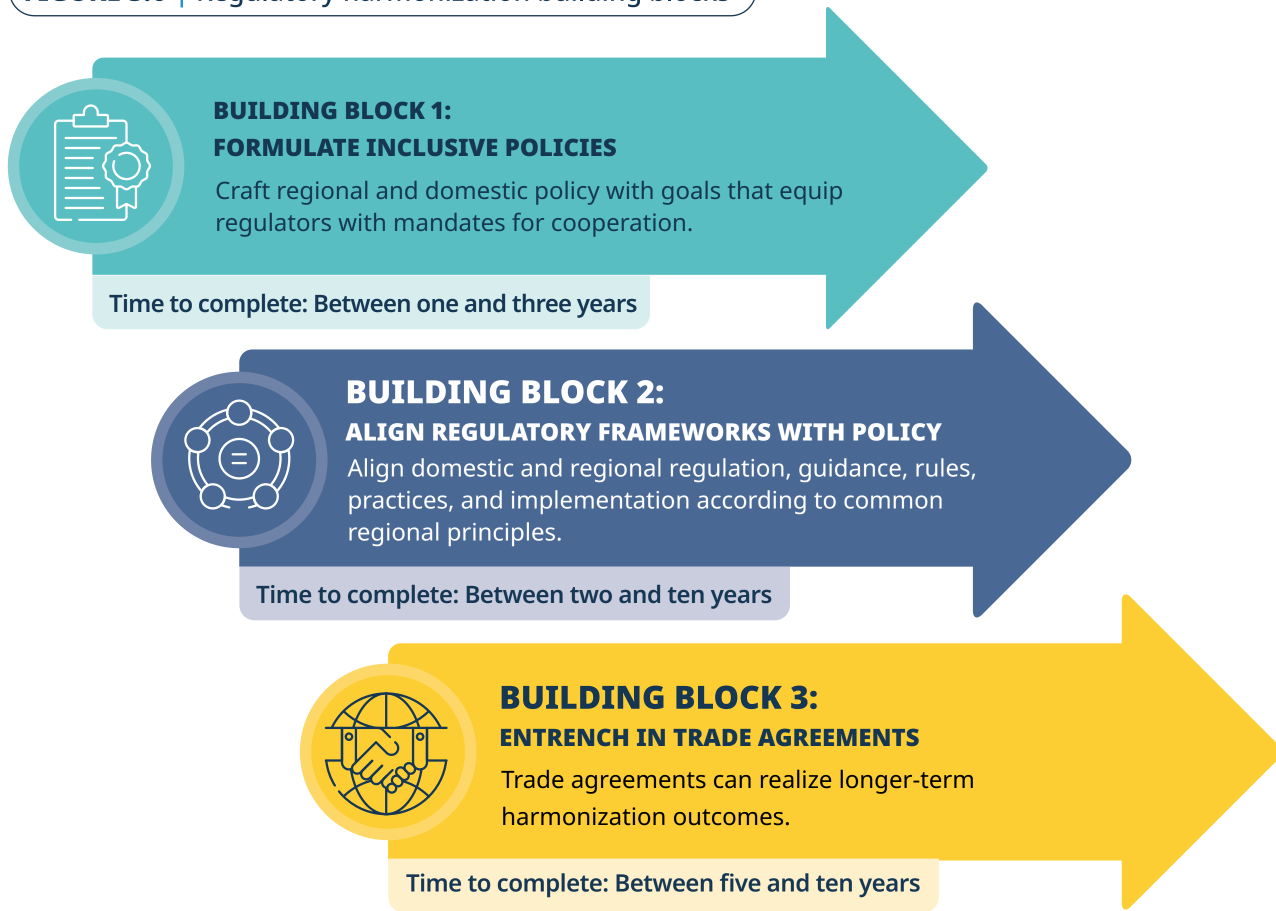
Three overlapping and iterative phases of harmonization are typically required for payment-related laws and regulations, as seen in Figure 3.0.

Building block 1, policy formulation—This revolves around the development of policy at both the regional and domestic levels. Policy at the regional level provides the roadmap via the development of joint objectives and principles. The formalization of these policies and frameworks can take between one and five years depending on the consultation processes.

Building block 2, alignment of the regulatory framework—This requires the adaptation of regional objectives into the existing domestic policy environment and legislative frameworks. It also includes the actual change of regulatory frameworks. This process can be iterative, as domestic realities influence the regional policy set out under building block 1. The regulatory and legal reforms that are foundational to regional agreements can take between two and ten years, depending on the complexity of the subject and clarity of regulator mandate.

Building block 3, entrenchment in trade agreements—This involves the reform of regional agreements with a strong payment link, e.g., trade agreements, and the implementation of corresponding domestic regulation and law. This embeds the objectives supported by regulatory and policy reforms into other sectors that impact cross-border payments. Trade agreements can take between years and decades to fully implement, depending on the number of jurisdictions and granularity of agreement.

FIGURE 3.0 | Regulatory harmonization building blocks



3.1 **Building block 1:** Policy formulation at the regional and domestic levels

A well-defined and clear regional policy is necessary to establish goals for regulators across jurisdictions to cooperate and coordinate in the cross-border payment space.

Regional research and landscaping activities can identify harmonization gaps and priorities, helping policymakers understand the local context and direct their efforts.

This research is typically led by external research organizations, such as AfricaNenda, Alliance for Financial Inclusion (AFI), the World Bank, or the United Nations Capital Development Fund (UNCDF), to name a few, to provide a neutral perspective.

AFI research on cross-border retail payments and remittances in the Eastern Europe and Central Asia (EECA) region provides an overview of the cross-border retail payment context, current projects, and key issues/gaps in the area requiring regional/domestic policymaker attention (AFI 2021).[11] Based on the gaps identified in the report, AFI supported regulators and policymakers from member states to develop a regional framework on eKYC and electronic identity. The framework provides guiding principles and best practices for EECA countries to leverage (AFI 2022).

Establishing a regional blueprint/roadmap with a financial integration endpoint provides clarity for regulators from different jurisdictions.

Several regions have developed comprehensive regional blueprints for financial integration. The examples below show how countries can develop regulatory approaches to financial integration. Buy-in and involvement from all member countries at the outset is an important precursor to regional blueprints.

11 The EECA region is made up of 22 countries, namely Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Georgia, Kazakhstan, Kosovo, Kyrgyzstan, Latvia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

The Association of Southeast Asian Nations (ASEAN) adopted a strategic action plan, the "ASEAN Economic Community Blueprint 2025," with the goal of achieving region-wide integration of trade, investment, and payments.[12] Each sector involved in the ASEAN integration efforts prepared a Strategic Action Plan (SAP) to guide its efforts. The comprehensive SAP was approved by the ASEAN finance ministers and central bank governors in 2016.[13] ASEAN countries have since undertaken bilateral and multilateral initiatives to link their domestic real-time gross settlement systems and adopt a standardized messaging format (i.e., ISO 20022). Singapore and Thailand connected their fast payment systems in April 2021. According to a March 2022 article published by the information resource centralbanking.com, the connected system had processed 200,000 cross-border transactions, valued at $44 million (Central Banking 2022).

Regulatory regional working groups or forums can establish a common purpose and address specific constraints, coordinating the development of payment system standards and elevating topics of mutual interest.

Forums allow regulators to discuss oversight approaches for domestic and cross-border PSPs, promote peer learning among regulators, and accelerate the development of common approaches to supervision.

- The West African Monetary Institute (WAMI) established a College of Supervisors (CoS) for banking supervisors and non-banking institutions in 2010 to enhance supervisory cooperation and harmonization of processes. The institutions meet centrally to foster cooperation and to develop regional frameworks. The CoS provides a forum for information sharing and capacity building. WAMI has developed roadmaps for the implementation of risk-based supervision and Basel II banking regulations. It has also harmonized its microfinance framework and established prudential regulatory committees (West African Monetary Agency 2021).

- Based on the ASEAN Economic Community Blueprint 2025's goal for financial integration, ASEAN established the Working Committee on Payment and Settlement Systems and the e-Payments Coalition, a public-private partnership initiative (World Economic Forum 2020). Several cooperation agreements have been signed as a result, including an agreement between the monetary authorities of Singapore and Hong Kong that facilitates referrals of innovative businesses between the two jurisdictions, information sharing, and exchange of expertise for the purposes of financial innovation (Dunn and Scanlon 2017).

- The Committee of Central Bank Governors (CCBG) is a group of central bank governors in SADC.[14]

12 ASEAN consists of ten countries, including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

13 The financial sector integration vision for 2025 encompasses three strategic objectives—namely financial integration, financial inclusion, and financial stability—and three crosscutting areas—capital account liberalization, payment and settlement systems, and capacity building. The blueprint includes the development of guidelines to establish harmonized regulatory regimes and has led to the establishment of the ASEAN Payment Connectivity Initiative (2019) and the ASEAN Financial Inclusion Framework (2018).

14 The CCBG serves as a platform for central bank governors to collaborate and coordinate their policies and activities related to monetary and financial issues. Functions include promoting regional cooperation, providing a platform to exchange information, developing policies and strategies, facilitating capacity-building and technical assistance, and representing the interests of the SADC region in international forums (Committee of Central Bank Governors n.d.).

The group played a key role in bringing respective central banks together to achieve mutual recognition for the licensing of PSPs that want to participate in TCIB.

Model laws developed at the regional level can function as guides for respective countries to evaluate domestic regulatory frameworks.

Model laws on a particular topic are based on best practices and typically first drafted by a regional committee, which then solicits feedback from global experts, such as the International Monetary Fund. Laws are presented to central bank representatives to receive approval and then forwarded to the respective central bank governors when finalized. The model acts can only function with clear mandates to central banks and other regulators around driving the principles of cooperation, co-recognition, and trust with regulators from different jurisdictions.

- The SADC region has a set of model laws that describe the convergence state for regulators. The SADC Central Bank Model Law (2009) and Protocol on Finance and Investment (2016) set the basis for regional cooperation among central banks and harmonization of legal and operational frameworks. These overarching regional frameworks have resulted in the convergence of domestic laws. The Bank of Tanzania adopted a new Banking and Financial Institutions Act in 2018, which incorporated provisions of the SADC Model Bank Law; the South Africa Reserve Bank has adopted elements of the model bank law as well (Mfunwa and Lubinda 2018).

- Similarly, the West African Monetary Institute (WAMI) in WAMZ, has introduced a model banking act for bank PSPs and financial holding companies. The different countries are in the process of reviewing the model law and conducting assessments on domestic gaps.

- The EAC has a model policy on electronic transactions and intends to create a uniform enabling framework for the region (East African Communications Organization 2017).

3.2 **Building block 2:** Alignment of regulatory frameworks

The frameworks and policy goals developed under building block 1 serve as a guide to implement regulatory changes at the domestic level. Across regions, several learnings have emerged, such as:

Proportional regulatory requirements around domestic licensing set consistent standards for cross-border PSPs.

While several regulatory areas are important to tackle domestically, the main operational barrier for cross-border payments, according to literature and stakeholder interviews, is the lack of proportionality in PSP licenses. Simply put, when new, innovative entrants such as non-deposit-taking fintechs are regulated according to the same standards as deposit-taking banks or other structurally important organizations, it discourages them from participating in the market. Proportionate licensing frameworks, in contrast, encourage entry by alternative players, fostering innovation and making it more cost-effective for providers to serve formerly excluded and lower-income consumers. Risk-proportional licensing reduces cost by lowering the compliance burden for PSPs, and thus reducing cross-border transaction charges for end-users. There is some precedence for this.

- Licensing frameworks adopted by South Africa often become a de facto standard for central banks from other jurisdictions in SADC. The South Africa Reserve Bank grants licenses to authorized dealers in foreign exchange with limited authority (ADLAs) based on tiers associated with types of payment activities. The ADLA license, implemented in 2014, allows non-banks to offer cross-border payment services, encouraging remittances, based on tiered capital requirements. After the introduction of this regime in 2014, competition intensified, and prices fell. The services of ADLAs are aimed at low-value remittances and are more competitively priced for low-value transactions (IFAD 2022). Other countries in the Common Monetary Area (CMA), Eswatini, Lesotho, and Namibia, and surrounding non-CMA countries, such as Zimbabwe, have adopted a similar framework (FinMark Trust 2021b). From 2016 to 2018, formal remittances sent from South Africa to Malawi increased by more than 170%. Most of this increase was because more ADLA license holders provided services (FinMark Trust 2021b).

- The Bank of Ghana supervises two PSPs with a "standard license" and four with a "medium license" based on different capital requirements (Bank of Ghana 2023). The central bank endorses a tiered-licensing approach, which classifies PSP licenses according to the activity PSPs engage in. The standard license allows PSPs to connect to enhanced-level PSPs to offer mobile payment apps. Medium-licensed PSPs connect to enhanced PSPs to provide payment aggregation, biller/merchant aggregation, point-of-service deployment, a mobile payment app, and printing of non-cash payment instrument services (Bank of Ghana n.d.).

- Regulators in the Philippines and Malaysia streamlined the licensing processes for non-bank payment service providers through the adoption of risk-proportionate regulatory requirements. They did this by licensing only those remittance service providers with a clear value proposition for end-users. Smaller players unable to comply with the streamlined rules were encouraged to become agent networks instead. The Philippines introduced a remittance platform provider licensing category that only requires registration and basic reporting. The cost of sending remittances via the Malaysia-Philippines corridor has dropped to the United Nations target of 3%, aided by simplifying compliance for non-bank providers (CGAP, 2019c).

- Passporting for cross-border payments provides a mechanism for reduced compliance costs. With mutual recognition, regulators accept the regulatory practices of another jurisdiction. The parties accept each other's payment regulations as being equally protective and risk appropriate. Mutual recognition can be achieved through bilateral arrangements between two regulators or via multilateral arrangements with three or more countries. This process goes more smoothly when domestic regulators converge around broadly defined international principles, such as the Basel core principles.

  Within the European Union (EU), PSPs licensed in one member state can obtain a "passport license" to conduct business in another member state. This is in compliance with the revised Payment Service Directive (PSD2), based on the principle of mutual recognition and harmonized prudential measures (European Banking Authority n.d.). Within the supranational structure of the European Central Bank's Single Supervisory Mechanism and according to PSD2, supervision and regulatory requirements imposed on less risky institutions are less onerous than larger ones (European Central Bank 2019). The implementation of a single passport approach under the PSD2 laws has resulted in lower charges for end-users across the EU: cross-border person-to-person fees have decreased by approximately 5% for bank customers and 2.5% for non-bank customers (BIS 2022c).

Regional practices/frameworks can help move toward local-to-local currency exchange and settlements.

As established in the preceding sections, foreign exchange management is among the largest contributors to costs associated with cross-border payments. Exchanging local currencies directly with each other, instead of relying on major currencies like the US dollar, euro, or pound, can eliminate expensive intermediaries and potentially shorten transfer times, enabling the use of almost instantaneous remittances and trade payments.

- Regional frameworks have been established in the ASEAN region to facilitate local-to-local currency settlement. The Local Currency Settlement Framework (LCSF), established in 2016 between Indonesia, Malaysia, and Thailand, promotes the wider use of local currencies to facilitate trade and investment in these countries. The initiative includes a set of bilateral agreements among central banks to use their own currencies for cross-border settlements and mutual trade through commercial banks appointed as cross-currency dealers, also known as payment-versus-payment. The framework allows bilateral transactions to be done in local currencies to reduce overreliance on the US dollar (Muhammad 2023; Ito, Hiro, Kawai, and Masahiro 2021). The LCSF cooperation has expanded to include China and Japan (through memoranda of understanding). Although trade in the region is still dominated by the US dollar, total trade transactions through the LCSF using the Thai baht and Malaysian ringgit increased from 1.4% in 2018 to 4.1% in 2020 (Phoebe 2022). In addition, the Thailand-Indonesia remittance corridor has seen remittance cost reduction of 7% since 2016 (World Bank 2022a).

- TCIB allows for settlements in South African Rand through the SADC real-time gross settlement system, which is based on deposits in the South Africa Reserve Bank. This reduced the number of correspondent deposits from around 13 to one correspondent deposit in rand and one correspondent deposit in US dollars, depending on the country settlement requirements.

Training can help regulators adapt and implement regulations in line with regional agreements.

Capacity-building assistance for policymakers and regulators can equip officials to meet harmonization goals. This includes benchmark analysis, regulatory drafting assistance, regulatory impact assessments, and risk assessment for PSP licensing, etc. Strengthening regulatory institutions enhances trust in the region, in that regulators are more willing to recognize each other's practices knowing they have received adequate training.

- There is a concerted effort on the continent for capacity building around the implementation of FATF standards and harmonization of AML/CFT/CPF frameworks, which help bring domestic regulators up to an adequate regional standard. ESAAMLG and GIABA work with their member countries to consolidate and combine efforts around AML/CFT/CPF regulations and laws to promote the adoption of the 40 recommendations made by FATF.[15] Mutual evaluations are central to monitoring the implementation of FATF standards across member countries. After identifying the deficiencies raised by the mutual evaluations, both institutions work toward strengthening capacity to address detected gaps. For example, since becoming an ESAAMLG member in 2012, Angola went through a FATF action plan to ensure technical compliance standards were met.

15 ESAAMLG's 16 member states are Angola, Botswana, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Rwanda has been formally admitted as a member of the ESAAMLG but has not yet fully taken up its role as an active member of the organisation. GIABA's 17 members are Benin, Cabo Verde, Comoros, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, São Tomé and Príncipe, Senegal, Sierra Leone, and Togo.

3.3 **Building block 3:** Entrenchment in trade agreements

In addition to policy objectives and regulatory alignment in payments, agreements outside of the payments sector, such as in trade, can also reinforce payments goals. Trade agreements are existentially dependent on the effectiveness of payments rails. Therefore, payments regulation and trade agreements need to be aligned to be mutually reinforcing. Formal trade agreements, especially at a continental level, can take decades to be fully implemented and therefore must include longer-term visions around reinforcing the principles rather than the specific reforms in payments.

Trade agreements can be used to promote core harmonization principles

Although the timeline for formalizing trade agreements is long, they are key tools to attain long-term harmonization in payments. Trade agreements can embed harmonization principles around co-recognition, trust, and cooperation, to provide an overarching goal for domestic regulators. While trade agreements cannot include process-level requirements and specifics for payment reforms due to the rapid pace of technical advancement, these agreements cement high-level standards, objectives, and policies.

AfCFTA came into force in 2019; as of 2023, there are 54 signatories (African Business 2022). The goal of the AfCFTA is to foster a common market in Africa and make it easier for people to conduct business across and within the continent. The AfCFTA uses the RECs to facilitate payments and trade integration between members of that region (African Union 2018). The AfCFTA's digital trade protocol covers data governance, data flows, and electronic transactions. Although it is too soon to gauge the ultimate effects of the AfCFTA on cross-border retail payments, several benefits are evident already today. Payment service providers are rethinking their strategies and expanding to more countries to prepare to reap gains from the AfCFTA's boost in intra-regional e-commerce.

The Digital Economy Partnership Agreement (DEPA) was signed between Chile, New Zealand, and Singapore in 2020. It is the first agreement of its kind focused exclusively on trade in the digital era. It includes an entire chapter dedicated to digital payments, with an emphasis on international standards. DEPA Article 2.7, for instance, encourages parties to work together to create a consistent regulatory framework for payments. Since its implementation in 2021, DEPA has ensured that payment service providers in respective countries have adopted internationally accepted standards, like ISO 20022 (Ministry of Trade and Industry Singapore n.d.; New Zealand Foreign Affairs and Trade 2020; World Economic Forum 2022). The DEPA addresses various regulatory barriers that hinder digital trade, such as data localization requirements and restrictions on cross-border data flows, which are applicable in Africa, too.

The roll-out of the Single Euro Payments Area (SEPA) in the EU and the payment service directives PSD1 and PSD2—which have shaped the access, security, and consumer trust that underpin the overall effectiveness of the SEPA system—can serve as an example for Africa. The EU has solid footing and a supportive forum for the development of common law among EU participants; but nonetheless, PSD1 and PSD2 took, on average, five years each to formulate and pass, and then another two years to become embedded within national law. PSD3, currently being formulated, aims to address issues that have arisen since PSD2, including right of access, recognition of licensed providers, and the development of technology.

The SEPA example highlights the long timescale necessary, even where there is an underlying union of national states and a currency union. It also highlights the iterative nature of the directives that drive access and usage and keep the platform relevant. For instance, PSD2 required banks wishing to participate in SEPA to recognize and open accounts for licensed third-party payments providers and share data, per customer consent. PSD3 now seeks to regulate the arbitrary closing of those accounts thereafter as well as develop provisions for innovative payments providers.

The key learning is that inclusive and effective cross-border payments systems are eminently possible, but the time and effort required to put them in place are significant. Examples like SEPA provide insights on how to shorten development cycles for cross-country frameworks, which can be tailored for the African context, potentially through a payment service directive for Africa to support ongoing initiatives such as the AfCFTA.

4.0 | In summary

The key takeaways for the effective harmonization of cross-border payment regulation are:

- Cross-border remittance, trade, and merchant payments are growing on the continent, but these payment flows are hampered by high costs, inaccessibility of formal products, and entrenched behavior around well-developed informal solutions.

- PSPs providing cross-border payments face multiple regulatory regimes across licensing, CDD, data privacy, storage, and sharing, foreign exchange, and reporting, which are often varied or even contradictory. Regulators must establish comprehensive and unified approaches at a regional level to foster a secure and predictable environment for cross-border transactions.

- To overcome obstacles, regulators in one jurisdiction must be able to trust the capabilities and authority of their peers in foreign jurisdictions, and they must follow general guiding principles of co-recognition, trust, and cooperation.

- RECs, monetary zones, and monetary unions have important responsibilities in promoting cross-border payment harmonization efforts within their regions. They bring together representatives from central banks, set goals and clarify incentives for local-level implementation, and encourage cooperation and collaboration among members. Domestic central banks retain the power to change and adapt regulation in line with regional policies.

- **Three building blocks set the foundation for regional harmonization of payment regulations and policies.** These building blocks are iterative and can run in parallel:

  - **Clear policies at both the regional and domestic levels.** These are needed to promote cooperation among regulators. This can be achieved through tools like gap analyses, model laws, regional blueprints, and regional working groups.

  - **Reforms of regulatory and legal frameworks at the domestic level.** These must be conducted in line with established regional goals. Areas of reform include proportionate payment licensing regimes, CDD/KYC regulatory reforms (including eKYC), and adjustment to foreign exchange laws and other supporting regulation, among others. Capacity building can help regulators adapt domestic-level regulations and approaches. Mutual recognition can be achieved through cooperative oversight arrangements.

  - **Multi-jurisdictional tools like trade agreements underpinned by effective payments solutions.** Having these in place can provide stability over the long term, reducing complexity in cross-border payments. These tools are better suited as principles of engagement as opposed to detailed operational guidance. Harmonization through a continental payment service directive for Africa (like PSD 1 and 2 in SEPA) can complement trade agreements such as the AfCFTA.

From this spotlight excerpt on cross-border payments and the benefits of regulatory harmonization, AfricaNenda welcomes various stakeholders to conversations and initiatives to support policy harmonization in Africa, to drive cross-border digital payments.

AfricaNenda

13th Floor, Delta Corner Tower 2
Chiromo Road, Westlands
PO Box 13796-00800
Nairobi, Kenya

www.africanenda.org
info@africanenda.org
@africanenda

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