COMESA BUSINESS COUNCIL

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The Business Case for a Regional Digital Payments Policy for Micro, Small and Medium Enterprises (MSMEs) in COMESA

A Digital Financial Inclusion Plan for MSMEs

Executive Summary

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This report was developed as part of the core programs under the COMESA Business Council's (CBC) Digital Services Workgroup. The business case report presents a justification for establishing legal frameworks and practical digital financial solutions. These solutions promote affordable and transparent cross border transactions, for low value -high volume retail markets that are primarily driven by Micro, Small and Medium sized Enterprises (MSMEs) including women and youth. The overarching vision is to strengthen cross-border trade, regional market access and boost intra- Africa trade in COMESA and the larger continent.

The report covers fieldwork that was conducted in 2019 and early 2020, with validation done in 2020. The CBC Digital Financial Inclusion Advisory Committee members which comprises of private -public stakeholders supported the field missions. The missions were carried out in Egypt, Ethiopia, Kenya, Malawi, Mauritius, Rwanda, Tanzania, Uganda and Zambia. The report is based on interviews and field observations with banks, Mobile Network Operators (MNOs), payment system regulators, Ministries of Finance and ICT, Fintech companies, Small and Medium Sized Operators, regional manufacturing companies, cross border associations, vendors and suppliers. Specifically, the study focused on women-run operations at the national and cross-border levels, in a bid to address their specific requirements within the digital financial ecosystem. The support, time and contribution from all these stakeholders which ensured an in-depth and robust assessment is considered invaluable. Extensive research and references from various credible regional and international sources, including relevant country reports, publications and market intelligence reports informed the Report.

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LIST OF ACRONYMS

ACH	Automated Clearing House
AFDB	African Development Bank
ATM	Automated Teller Machines
API	Application Programming Interface
ASEAN	Association of South East Asian Nations
B2B	Business to Business
B2C	Business to Consumer
BCEAO	Central Bank of West African States
BIS	Bank for International Settlements
BNR	National Bank of Rwanda
BoP	Bottom of the Pyramid
BoT	Bank of Tanzania
BoU	Bank of Uganda
BoZ	Bank of Zambia
C2C	Consumer to Consumer
CBC	COMESA Business Council
CBE	Central Bank of Egypt
CBK	Central Bank of Kenya
CCBG	Committee of Central Bank Governors
CEMAC	Economic and Monetary Community of Central Africa
CENFRI	Centre for Financial Regulation and Inclusion
COMESA	Common Market for Eastern and Southern Africa
CSD	Central Securities Depository
DFS	Digital Financial Services
DLT	Distributed Ledger Technology
DRC	Democratic Republic of Congo
EAC	East African Community
EAPS	East Africa Payment System
EBC	Egyptian Banks' Company
EFT	Electronic Funds Transfer
FINTECH	Financial Technologies
FSTAP	Financial Sector Technical Assistance Project
FATF	Financial Action Task Force
FMI	Financial Market Infrastructure
FSDP	Financial Sector Development Plan
GBA	Global Banking Alliance for Women
GDP	Gross Domestic Product
GePG	Government Electronic Payment Gateway
GPI	Global Payments Innovation
HCPI	Harmonized Consumer Price Index
ICT	Information and Communications Technology
IFC	International Finance Corporation
IOSCO	International Organization of Securities Commission
IMF	International Monetary Fund

ISO	International Organization for Standardization
MINIMCOM	Rwandan Ministry of Trade and Commerce
MITASS	Malawi Interbank Transfers and Settlement System
MNO	Mobile Network Operators
MoU	Memorandum of Understanding
MSME	Micro, Small & Medium Sized Enterprises
MTO	Money Transfer Operator
NFC	Near Field Communication
NISR	National Institute of Statistics Rwanda
NLP	Natural Language Processing
NPS	National Payment System
OBeP	Online Banking ePayments
OECD	Organisation for Economic Co-operation and Development
PoS	Point of Sale
PSFU	Private Sector Foundation Uganda
PSP	Payment Service Providers
QR	Quick Response
REPSS	Regional Electronic Payment and Settlement System
R-NDPS	Rwanda National Digital Payment System
RTGS	Real Time Gross Settlement System
RTP	Real Time Payments
RTNSS	Real Time Net Settlement Systems
SADC	Southern African Development Community
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank
SDG	Sustainable Development Goals
SEPA	Single Euro Payments Area
SIRESS	SADC Integrated Regional Electronic Settlement System
SIPS	Systemically Important Payment Systems
SMS	Short Message Service
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TIPS	Tanzania Instant Payment System
TIPS	Target Instant Payment Settlement
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
VR	Virtual Reality
WAEMU	West Africa Economic and Monetary Union
WTO	World Trade Organisation
ZAR	South African Rand
ZECH	Zambia Electronic Clearing House
ZIPSS	Zambia Interbank Payment and Settlement System

ABSTRACT

This report provides a business case and policy framework for a digital integrated regional Common Payment Scheme for Micro, Small and Medium Enterprises (MSMEs) in the Common Market for East and Southern Africa (COMESA) region. It is based on data that was collected and captured in 2019 and early 2020, which identified the digital payment systems as a focus area for improving the efficiency and performance of MSMEs in the region. The overall aim of the project was to define the prerequisite requirements for developing a digital integrated regional common payment scheme that can facilitate bottom of the pyramid informal traders (cross border and domestic) to carry out digital transactions that are transparent, affordable, secured, and provide access to formal working capital. It summarizes the digital payment systems in the nine countries within the COMESA region, and some selected countries outside the region which have strong cross border trade partnerships. It also maps out the suitability of the available payment solutions across MSMEs' requirements within the individual countries as well as the region. Additionally, the report bridges the gaps that exist in the current digital payments solution regarding MSMEs, as well as business case and policy considerations towards a more harmonized digital payment solution for the region.

EXECUTIVE SUMMARY

The MSMEs represent 90 percent of Africa's economy and employ 70 percent of the continent's total population, a large proportion of which, is not connected to, and lacks the technical skills for using digital infrastructure. As a result of this, they are constrained because they need access to buyers, information on products, pricing knowledge, standards requirements, buyer-seller relationships that are sustainable, i.e. a professional online interface with potential buyers.

In terms of economic performance in the COMESA region, the average growth rate slowed down to 4.7 percent in 2018, and was projected to reduce further to 3.5 percent in 2019, due to weaknesses in several Member States (COMESA HCPI, 2019). The COVID 19 is further exacerbating the economic situation of the most vulnerable populations in COMESA. This is further compounded by the high unemployment rate that requires urgent investment stimulants.

The high unemployment rate, disproportionately affects women and youth, and has had a high impact on poverty and politics (Kaplinsky & Morris, 2019). Projections show that the continent's youth will hit the 2.5 billion mark by 2050. In relation to this, it is critical to identify mechanisms that will enable an inclusive trade, which provides intensive employment and scope for enhanced activities by MSMEs, (Economist, 2020).

The cross-border markets, which provide an opportunity for MSMEs to expand their enterprises, will simultaneously be addressing unemployment and enhancing economic growth within the COMESA region. While focusing on the ASEAN countries, Lopez-Gonzalez (2019) argues that digital transformation presents new opportunities for MSMEs to participate and benefit from trade. This results in a 10 percent increment in internet usage which is associated with a 3.4 percent and 3.9 percent increase in trade in goods and services respectively. From the foregoing, it is evident that the adoption of digitalization will enable MSMEs to increase their business activities because it will minimize some of the constraints associated with exporting. These constraints include the regulatory barriers and compliance costs, such as the need to comply with regulatory regimes of different countries, and the risks associated with money laundering. In addition to this, dependency on intermediaries and information asymmetries associated with doing business in different countries will also be reduced while facilitating supply and demand.

This report, which was commissioned by CBC, provides the business case and policy framework for a digital integrated regional common payment system for MSMEs within the COMESA region. The aim of the policy framework is to facilitate the design, development and deployment of an integrated, low cost, interoperable and fraud resistant digital financial services infrastructure that serves MSMEs. The proposed digital common payments scheme for MSMEs specifically focuses on women and youth enterprises which have been identified as MSMEs, and the customers they transact with at the bottom of the financial pyramid. Further, the proposed scheme is consistent with initiatives by different countries in the region aimed at moving towards a cashless economy in line with the Maya Declaration[1]. The proposed policy framework is to be guided by this business case report, which has taken into consideration the specific coordination complexities of cross border payments, notably, the multiple systems, different currencies, different legal and regulatory regimes, and inherent risks related to money laundering and terrorist financing will guide the proposed policy framework,(Bech, Faruqui and Shirakami, 2020).

1 The Maya Declaration, is the Alliance for Financial Inclusion's (AFI) initiative to encourage national commitments to financial inclusion. (https://www.afi-global.org/maya-declaration)

1.0 BACKGROUND

1.1 Objectives and Scope of the Study

The business case study for common payment policy guidelines towards a COMESA digital payment scheme for MSMEs is an initiative of the COMESA Business Council's Digital Financial Inclusion project. The project is aimed at making markets work for the poor in the region especially those in the bottom of the financial pyramid.

The objectives of CBC Digital Financial Inclusion project

• Increasing the participation of both informal and formal MSMEs, which are at the bottom of the financial pyramid, in inter and intra-regional trade and to give them the opportunity to capture income-generating opportunities within the region	• Promoting economic growth within the region by coming up with localized digital inclusion solutions that can be integrated with regional solutions.
• Connecting MSMEs with markets both locally and internationally through the elimination of unnecessary middlemen	• Promoting a harmonized common payment policy for MSMEs in Africa specifically focusing on the COMESA region
• Increasing intra-regional trade through the formalization of MSMEs, particularly cross-border traders, small-scale farmers and women entrepreneurs into digital financial services	• Increasing the sustainability of MSMEs through efficient and competitive platforms that promote volumes of products and services across borders at minimal costs to the informal industry. This in turn creates increased demand, larger market shares for MSMEs and leads to job creation

The envisaged regional digital common payment policy for the MSMEs framework opens up a wide range of new opportunities for: scaling up; reducing costs; and enabling the creation of new business models, which can radically challenge the existing ones. . The use of digital tools enables micro enterprises to access the international markets, (OECD, 2017).

1.2 The Digital Financial Inclusion project

COMESA Business Council initiated the project in 2018 when the region recorded a trade deficit of US$83 billion. Following this loss, there was therefore need to increase the participation of MSMEs in international trade thereby improving trade in the region.

Through the Digital Financial Inclusion project, CBC supports the design, development and deployment of an integrated digital financial services infrastructure, which is low-cost, interoperable and fraud resistant. It also serves MSMEs, particularly women and youth, who are at the bottom of the financial pyramid.

The primary aim of the CBC Project is to increase trade within the region by supporting the development of digitally inclusive economies within its Member States. For individual Member States, the project makes provisions for the integration and interconnectivity of digital economies in the region, with the aim of ensuring that poor MSMEs are taking part in the global financial services and systems. The project supports instant and inclusive payment systems, while appreciating the fact that since the poor make instant decisions, neither delays nor slow clearing processes should affect them.

The CBC works with both the public and private sector, including the not-for-profit organizations and other related institutions, to come up with solutions that drives instant and inclusive digital payments. When doing this, it mainly focuses on addressing digital payment system infrastructure at national, then regional level, and finally being able to interconnect globally in a sustainable way.

1.3 Women and Youth

Trade plays an important role in driving women's economic empowerment. Consequently, there is need to build a more inclusive payments system that will give more women a chance to take part in trade and reap from the economic benefits of regional integration. This is because, women and youth constitute over 70 percent of all small-scale, cross-border traders (AFDB, 2019). The World Trade Report (2017) emphasizes on the crucial role that technological developments like e-commerce, can play in eliminating time and mobility constraints for a majority women, particularly those with children.

1.4 MSME Constraints

Over 95% of all firms in Africa are MSMEs (Hatega, 2007; Kauffmann, 2005), contributing an estimated 20-25 percent of the COMESA region's Gross Domestic Product (GDP[2]). Further, Bekele & Muchie (2009) used binary logistic regression analysis of MSMEs in Ethiopia to identify the key predictors of viability and long-term survival. The researchers concluded that MSMEs have the potential alleviating extreme poverty among the masses by generating employment opportunities for the poor. The cross-border market can be quite challenging for the MSMEs to penetrate. However, enterprises must take advantage of the ever-increasing acceptance of the digital space as the marketplace for trade to actively participate in it. They should also maximize on the fact that COMESA is made up of a mixture of landlocked, island and coastal countries, many of which have vast distances within and between them. Besides this, they have poor connections, because of the weak trade and logistics infrastructure in the region, and a high prevalence of non-tariff barriers.

A major stumbling block for MSMEs trading regionally, is access to cost-effective cross border payment platforms, which cater for the gap between what MSMES require and what banks provide.

Also, lack of a regional integrated digital financial services infrastructure for MSMEs poses a major challenge.

Another key challenge, that's makes the adoption of an integrated digital platform for MSMEs necessary, is the scarcity of data, particularly with regard MSME cross-border flows. According to COMESA, only two countries, Rwanda and Uganda, currently provide Small Scale Cross Border Trade (SSCBT) data flows in their main trade databases (COMESA TRADE Statistics, 2019).

The site visits that were conducted during the study proved that, although some cross-border traders may cross several borders within a regional economic community where there are no visa requirements, taking two or three days to reach their trading destination, some cross the same border several times a day.

Lack of political goodwill for regional integration and harmonization, may be a significant hindrance to economic transformation, potentially affecting industrial and commercial activities across the region, and as a result, negatively impact on payment flows.

The fragmented legal and policy frameworks within member state and in the region also affect MSME trade and payments. The issue of who regulates the digital financial services space especially when mobile money is put into consideration remains a major concern.

Poor technological advancements have often resulted in some MSMEs being excluded from the payment chain due to lack of infrastructure including the network signal masts. Consequently, regional harmonization projects, such as the digital payments platform, and the use of multiple local currencies across the region, can be key drivers for scaling-up cross-border trade. However, lack of proper infrastructure turn this into a mirage.

International regulations that impose strong prudential controls and operate a close to zero-tolerance to exposure to potential money-laundering and terrorist financing influence transaction patterns and payment systems to a great extent. This makes it difficult for non-banking payment service providers to take part in international payments, although the MSMEs are comfortable with these platforms. Lack of clear AML and CFT laws in some jurisdictions make it difficult for MSMEs to access digital payment platforms.

[2]https://www.comesa.int/wp-content/uploads/2019/11/PRESS-RELEASE-COMESA- percentE2 percent80 percent93-EU-Sign- percentE2 percent82 percentAC8.8m-for-RECAMP.pdf

Lack of or failure by some jurisdictions to follow international standards in retail payment messaging often results in MSMEs being referred to the more expensive bank option. Other challenges include: country-specific data-flow barriers; and data localization rules, which could either make it difficult for payment service suppliers to operate within a market or raise the cost of doing so.

Foreign exchange controls featured as the highest barrier to international e-payments. Additionally, the cost and risk of currency exchange, as well as difficulties in processing wire transfers and accepting foreign credit cards have been cited as hindrances (ITC, 2017). More significantly, where regulations either prohibit or make it excessively expensive for an international e-payment solution to offer a service in a market, small-scale e-retailers who have global customers will rely on the costly interbank cash transfers.

The lack of an e-commerce platform for MSME trade often results in cash on delivery transaction. These lead to costly journeys being undertaken by the traders across country borders, thus exposing women to abuse, especially at the border points.

2.0 RATIONALE FOR A LOW-COST DIGITAL INTEGRATED COMMON PAYMENT SCHEME FOR MSMEs

2.1 Meeting the MSMEs at their point of need

The CBC project is concerned about the MSMEs, and improving trade at all levels of the economic pyramid, within the COMESA region. However, the Balance of Payments (BoP), particularly. The Digital Financial Inclusion Project is and will always focus on supporting the financial inclusion of MSMEs by meeting them at their point of need. Its aim is to create a seamless interaction between digital finance service providers, the users who are the merchants, and the customers thus ensuring that markets work for the poor. The project is primarily aimed at deepening the operations of the financial sector within the member states. This will guide the member countries, as well as organizations operating within the COMESA region, toward the instant and inclusive real time retail payment system that has been designed to cater for the needs and aspirations of the poor.

The MSMEs encounter numerous challenges and complexities in managing and growing their businesses. At the core of every business, is its ability to buy and sell. Deloitte (2018) avers that, significant value can be unlocked for MSMEs by enabling them strategically make or receive payments in a manner that attracts rewards, improves working capital, and drives efficiency or optimizes processes.

An integrated digital payments system in modern businesses, can enhance the operational efficiency of a business, which in turn translates to better pricing for customers, as well as making prompt payments. A well-designed digital payment system connects the critical payment processing function of the business to other vital systems, such as accounting, payroll and Customer Relationship Management (CRM). This streamlines the payment processing, business administration, and customer experience management.

Furthermore, Abdellaoui, Pasquet, & Bertheliera (2011) postulate that a low cost integrated digital payments system guarantees authentication, confidentiality, integrity and different payment system requirements, especially the economic requirements, because it reduces the transaction cost and increases the return on investment (ROI) for the MSMEs.

Similarly, according to the World Bank (2012), the past 25 years have witnessed a 10 percent increment in the rate of mobile phones penetration, a factor that has been associated with a 0.8 percent boost in GDP per capita in developing countries. The institution notes that a similar increase in broadband networks could further increase general economic growth by 1.4 percent.

In an effort to promote digital trade and digital payments, the CBC project seeks to provide the MSME with the following as per the feedback that was received during interviews:

- Access to both markets and payment systems - Customers and merchants can easily acquire and use digital platforms especially digital financial service and e-commerce and trade platforms. This is aimed at ensuring that markets work for the MSMEs
- A robust system should always be available whenever users require it. Customers' data and funds should always be secure and available for use.
- Security for customer funds and data – Customers funds and data should be protected, and systems created to help prevent their utilization for money laundering and terrorist financing.
- Affordability – The system should be easy on the pocket to avoid the temptation of reverting cash.

2.2 Weaknesses of the current Regional Payment Systems

a) **Expensive** - Genesis (2016) observe that traditional cross border payment systems within the region relied on local banks establishing correspondent banking relationships with banking institutions in other countries in the region and to hold nostro[3] accounts with correspondent banks that initiate the cross-border payments made in USD. This process is expensive because the local banks have to pay correspondent fees. Additionally, the settlement time is lengthy.

b) **Wholesale** - Numerous regional payment systems are developing across Africa. However, despite these initiatives, most of the regional payment systems have been classified as wholesale payment systems, which means they are supposed to undertake large-value transfers, mainly between banks. Given their systemic importance, wholesale payment systems are generally owned and operated by Central Banks. This has resulted in the payment systems inadequately catering for small-value transfers that are typical with the MSMEs trade.

c) **Suboptimal** - Most of these payment initiatives are bank-led with the risk of sub-optimal system design and costly integration for MMOs/FINTECHS to interface with bank protocols. Hence, there is need to consider the inclusion of non-bank payment service providers in the design of regional payment systems.

d) **Regulatory gap and illusion** - Regulators/policymakers must also ascertain that all participants understand the guidelines pertaining to the systems. Biases exist that are in favor of closed-loop systems when it comes to non-bank payment services providers. It is important for regulators to appreciate and understand the importance of interoperability in unlocking the potential of high volume use cases.

2.3 Key Observations and lessons from Regional Payment Systems Initiatives

Cross-border services are set to increase in popularity. This will therefore call for the realignment of domestic and regional solutions to international standards, systems and applications. Customers will be able to connect their devices, such as mobile devices and computers, directly to the payment services. Similarly, there will be less technical differences between domestic and international telecommunications, and the differences that currently exist between domestic and international payments will soon disappear.

a) Governance Structures

A cross-cutting theme across the highlighted regional system, is a governance structure that can be used to develop standards and technical guidelines that will interlink each country's system. This also includes the development of shared payments infrastructures for RTGS, ACH, card payments and other payment service providers.

Key considerations - It is important to note that governance structures alongside common technical, operational and ownership guidance are critical elements for facilitating a payment system that is accessible to the widest possible range of payment providers. An unclear ownership, governance and operational structure will pose significant risks to the switch operations and functionality of the system. A comprehensive set of rules and regulations, which will be developed in collaboration with all the scheme participants, will be necessary in mitigating the operational risks that may undermine the customers trust in payment solutions.

b) Common Standards

Regional payment scheme development requires country level participants to agree to and adopt common standards and rules for transaction processing and service delivery, messaging, security and other areas of support.

[3] an **account** that a bank holds in a foreign currency in another bank

Within the ASEAN system, through the MoU, initiatives were put into place to develop protocols and standards that would link the RTGS systems for each of the countries, as a first step towards attaining greater payment system integration in the region. A similar scenario was witnessed with the EU- TIPS for European Union and the SIRESS for the SADC region.

Member States participating in SIRESS have structured the legal arrangements among themselves through a number of multilateral agreements, in view of the legal certainty that faces them. However, the SADC countries have already committed themselves to harmonizing their legal and regulatory frameworks, and establishing institutional and organizational structures, which are conducive for the establishment of an integrated payments market.

Key consideration – On matters regarding the common standards, harmonization of the legal and regulatory frameworks is an important step, towards attaining a fully integrated payment system.

c) Cost Efficiency

Banks rarely use the COMESA- REPSS system due to the high cost associated with it and the relatively lengthy period of time taken to process transactions. The system is mostly used for undertaking large-scale RTGS system transactions across borders. The fact that it is pre-funded, makes it difficult to plan for mobile money transactions that are often unpredictable (Cooper, et al., 2017).

Further, trade in multiple currencies necessitates the maintenance of correspondence accounts, which make provisions for an additional cost structure in the different countries. Bech, Faruqui, & Shirakami (2020) argued, that for instance, while values that were settled by SADC's SIRESS had grown over time, they still represent only about one percent of the total number of values in the South African Multiple Option Settlement (SAMOS)[4]. The authors attributed this to the level of importance that is attached to the US dollar for making cross-border payments in the SADC region, and the relatively high liquidity management costs for participating banks.

Key considerations: Limiting the cost of service provision while providing incentives for switching to the digital systems is essential for motivating MSMEs adoption. An integrated payment system, with a multi-currency option would enable MSMEs to hold a single account for the entire region, simplifying the import and export processes and ultimately the transaction costs. Nevertheless, the process of switching should not introduce additional barriers to trade and financial inclusion. Scheme governance and charging mechanisms play a pivotal role. Similar to the number portability switching that happened in Europe, the most practical way of limiting the risk of artificial price inflation for switching is that the charging mechanisms should be cost based and shared among members.

d) Membership

In some instances, progress has been hampered by the reluctance of member countries to trade in each other's currency. There is a discernible growth in the volume of transactions in regional payment systems using a common currency. For instance, with regard to the East African Payment System (EAPS), Anyanzwa (2019) concluded that resentment to the usage of each other's currencies resulted in the low uptake by other countries within the system, leaving Kenya to control over 98 percent of the transactions.

Key considerations: Membership considerations should be formulated in binding agreements among scheme members. Membership should be open to all financial service providers, including FinTechs.

[4] The SAMOS system is an automated interbank settlement system provided by the South African Reserve Bank for banks to settle their obligations on an immediate real-time basis, or in a delayed settlement arrangement, providing guaranteed settlement. Large-value payments are settled one-by-one on a real-time gross settlement (RTGS) basis, while retail payments are settled as a batch on a deferred basis(www.resbank.co.za)

e) Full deployment of an infrastructure

It was noted that the existing infrastructure (national switches and transmission networks) in some countries is outdated and not interoperable with other digital payment systems in different countries across the COMESA region. There is therefore need to interface with other infrastructure, while ensuring that all cyber security and compliance aspects are adequately covered.

Key considerations: Participating countries must focus on modernizing the existing architecture and models to enable them deal with factors such as security and regulatory compliance as well as compliance with the requirements of regional scheme. Ideally, this would be through pre-agreed upon MoUs with specific timelines and schedules.

f) Customer experiences

Fragmented experiences across businesses create customer confusion, which results in a limited customer base, and limits opportunities for both the existing and new payment service providers. Ease of use is an important design consideration, and emphasis should be put into attaining a single payment experience for customers (based on seamless system interoperability, comparable to mobile telephony), rather than a single payment platform.

It is also observed that while most of the regional payment systems provide an option for putting into place intra-regional trade payments, this has not been extensively used by Payment System providers (PSPs) in the region. This is attributable to the fact that multinational banks already have well established correspondent banking relationships in the region. Furthermore, the pre-existing low levels of intra-regional trade demand have resulted in relatively low intra-regional payments being made.

Key consideration: The development of a customer centric solution with relevant use cases in mind is necessary.

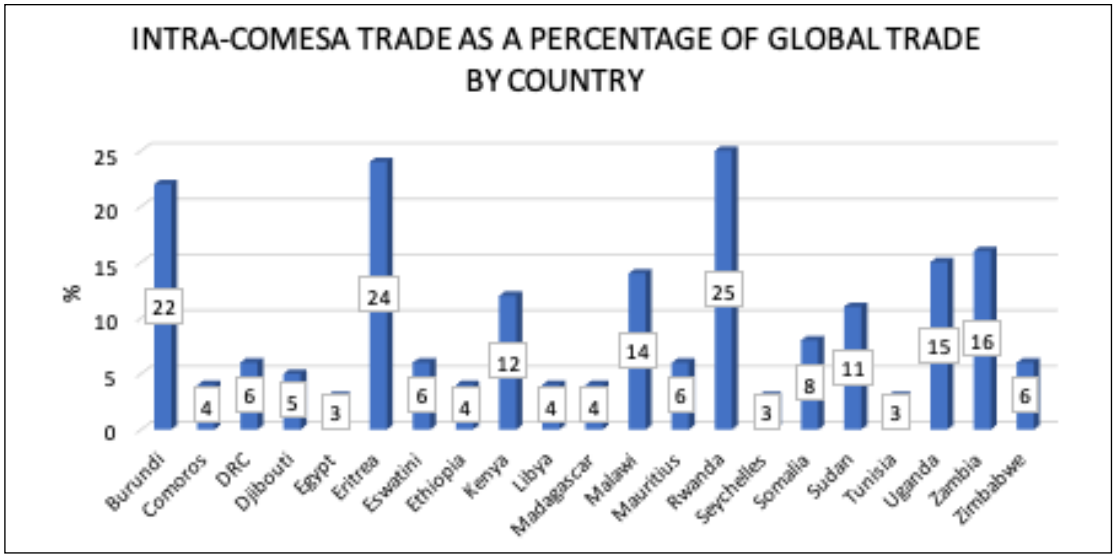
2.4 Payment System Enablement

The main consideration is that there is need to embrace an open and inclusive interface. An instant inclusive digital payments ecosystem, consists of several building blocks and an enabling environment. The building blocks of such an ecosystem include: digital payment service providers (banks and non-bank payment service providers, including mobile money operators); a payment system that is part of the financial infrastructure; a distribution system (or channels and access points, including agents and direct digital access); an ICT and energy infrastructure; and an effective user identification system.

2.5 Value Proposition

The World Trade Organization (WTO) reports that 95 percent of companies across the globe are MSMEs, accounting for 60 percent of the world's total employment. However, MSMEs face numerous obstacles when seeking to take part in international trade. In developing countries, exports by the MSMEs' accounted for only 7.6 percent of the total sales in the manufacturing sector, compared to 14.1 percent of the exports by large manufacturing enterprises (WTO, 2019).

Estimates from Mastercard (2018) indicate that the online opportunities for MSMEs currently stand at US$7.7 trillion for business to business (B2B) and US$2.3 trillion for business to consumer (B2C). This is projected to increase further. The global cross-border trade is particularly robust, with 57 percent of all online shoppers indicating they had made an online cross-border purchase during the first half of 2017 . Similarly, United Nations Conference on Trade and Development (UNCTAD, 2019) reports that cross-border business-to-consumer (B2C) sales reached an estimated $412 billion, accounting for almost 11 percent of the total B2C e-commerce transactions.



It is worth noting that intra-regional trade by MSMEs in COMESA remains low, averaging about six (6) percent of the global trade (Fig 3).

The cross-border market can be challenging for MSMEs to penetrate. However, the enterprises must take advantage of the increasing acceptance of the digital space as the marketplace for trade, to actively participate in it. A major barrier for MSMEs trading regionally is with regard to access to cost-effective cross border payments, with a clear gap between what MSMES require, and what financial institutions provide. This is also compounded by a lack of regional digital payment system for smaller enterprises. Thus, in order to help the MSMEs enter into new regional territories, payment providers must remove barriers, including the poor foreign currency exchange rates and policies, high cross border transfer fees, and slow settlement timescales.

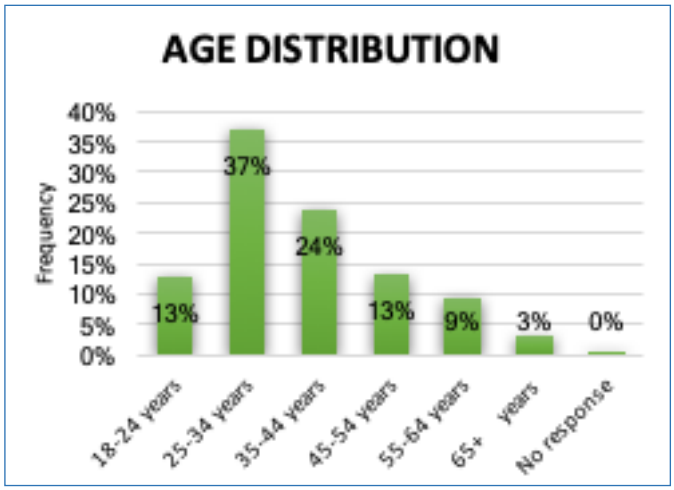
2.6 Limitations

a) Supportive infrastructure such as the internet**,** telecom network coverage, and partnerships between Mobile Network Operators (MNOs) and actors that can provide financial services to agents. This also includes the existing interoperability of different domestic payment systems including the availability of an approved safe and efficient underlying digital payment schemes that can process cross border payments across the region.

b) Information - Up-to-date, information on both the demand and supply of MSMEs, including the products and services on offer is not readily available to the public. Furthermore, even when such information is available, it may not always be widely communicated or presented in useful formats.

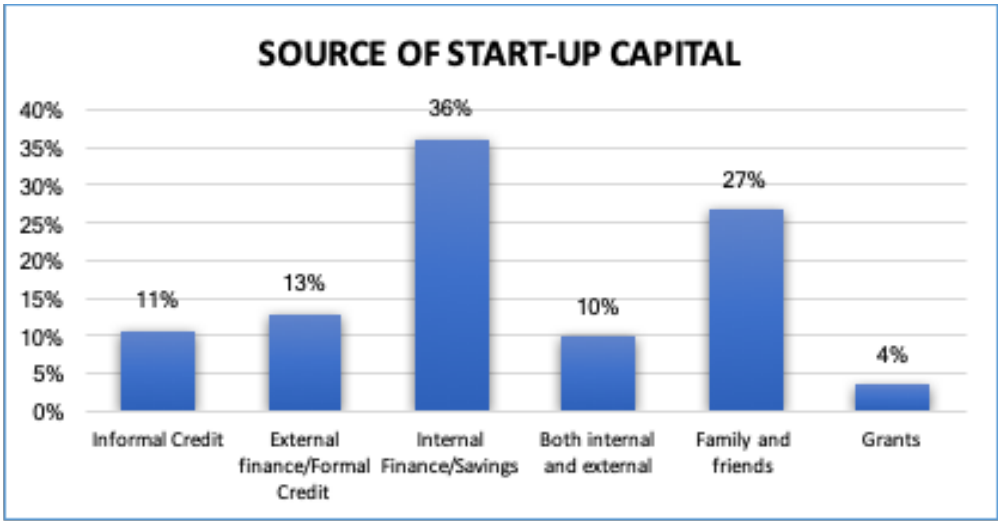
c) Political will - There is need for national political will and capacity to build the required infrastructure (in a bid to incentivize MNOs to deploy telecommunications infrastructure in remote areas) towards encouraging digital payments.

3.0 FIELD STUDY OBSERVATIONS AND LEARNING POINTS



A total of 205 MSMEs representatives responded to the questionnaires, 68 percent of whom were women. MSME population within the COMESA region is fairly young with the majority falling in the 25-34 years age group. In this regard, 74 percent of the MSMEs were under the age of 44. This age group is generally receptive to new innovative technology. About 79 percent of the respondents indicated that they owned smart phones and were comfortable with the technology. Although only 20 percent of the MSMEs reported get information from the internet, however, when the total market information received on phones is taken into consideration, the proportion increases to 31 percent. This is also solidified by the fact that 86 percent of the MSMEs would consider a platform that sends market information through their phones, which presents an opportunity for e-commerce applications.

While 28 percent of the MSMEs indicated that they were using digital payments in cross- border trade, while, 61 percent reported that they did not use the payments, with a strong possibility of them using cash. In addition to this, 80 percent of the respondents indicated that they had transacting accounts. Interestingly, 81 percent of the MSMEs reported that they were uncomfortable using cash, with mobile money being their preferred mode of payment. This finding demonstrates the importance of having an instant and inclusive payment system that the MSMEs can comfortably access through the gadgets.



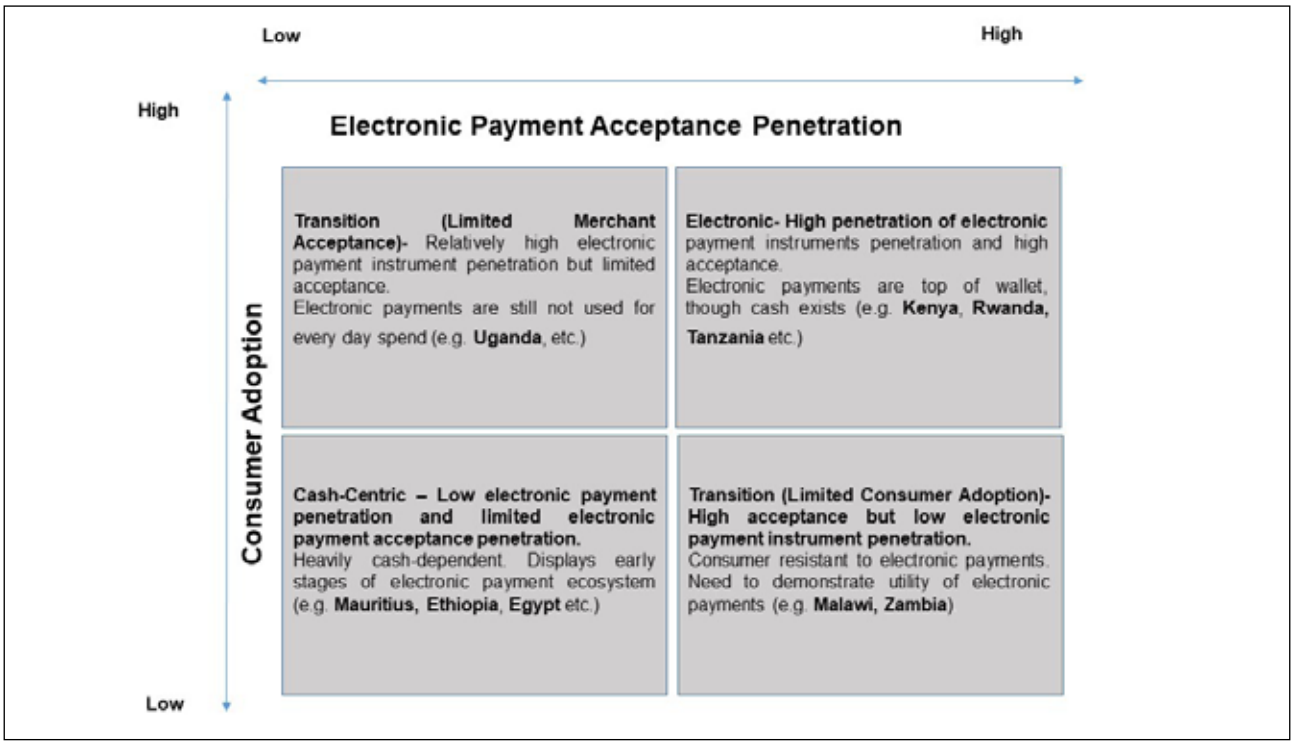
The research revealed that access to formal finance was a challenge within the COMESA region. Only 13 percent of the MSMEs had access to the facility, while 36 percent used their own savings, and 27 percent got assistance from friends and relatives. There is an opportunity within the region to use data for credit analysis purposes. It is important to note that MSMEs are always trained on how to deal with financial institutions only when they want to access credit. The research further revealed the importance of financial institutions taking time to learn more about the MSMEs. It was established that this would create an understanding, and build the trust that is needed when it comes extending credit to them. The use of digital platforms provides data sets that the financial institutions can use to support the MSMEs.

The study found that a majority of the MSME businesses were sole traders employing less than nine (9) employees. Just about 16 percent considered themselves to be cross- border traders, while the majority were in agriculture (38 percent) and retail and wholesale (30 percent). Among the MSMEs, 30 percent started their businesses with less than US$50, while 29 percent started their businesses with over US$250. Recorded intra-regional trade remains relatively low.

The payment landscape within the COMESA region has undergone significant changes over the past decade, especially given the proliferation of non-financial institutions, including mobile network operators (MNOs), Payment Service Operators (PSO) or PSPs, and retailers in the payment industry.

Other important trends in the payment landscape include: the convergence of e-commerce and mobile payments through the uptake of smart phones (79 percent) and mobile applications; the adoption of e-payment (B2G and P2G) by government organizations to capture revenue (e.g. taxes and utilities) and disburse payments (e.g. pension and social benefits); and the growing cross-border, low-value e-payment market, such as remittances, international bill payment, e-commerce, and trade services.

Interoperable infrastructure remains a major challenge in the region. This necessitates the adoption of the ISO 20022 international message standard to facilitate the transmission of payment and business data to meet the needs of the business sector for data connectivity. Fostering of payment service innovations to meet consumer needs, will improve cross-border payment and funds transfer services.



3.1 Observations of the COMESA Region Payment System

a) **Payment system regulatory framework is in need of review:** Current laws and regulations related to the retail payment were established in the early 2000s and are not fully reflective of the trends in innovative payment solutions. A few countries have started working on reviews, although these will need standardization, while ensuring that they remain relevant and proportionate to the requirements of the specific jurisdictions.

b) **Barriers to cross-border payments and international remittances:** Limited and bank-led regional payments integration as well as interoperability problems due to lack of regional regulatory harmonization, and the multi-currency regime, restrains the operational and economic efficiency of payment systems, as well as, affordability to the end consumer.

c) **Cash-dominated economy:** COMESA region remains highly cash centric, which poses a significant cost to MSMEs. The cost of cash for countries that are predominantly cash users can easily exceed one (1) percent of GDP and perpetuate a shadow economy. This will require a high-density digital payment acceptance infrastructure as well as robust incentives for customers and merchants to encourage them to shift to digital payment methods.

d) **Gaps in network infrastructure:** Currently, a number of gaps exist within the network infrastructure, including: unstable back-end and front-end infrastructure for providers; low penetration of smart phones which limit the usage of innovative channels; limited mobile network and electricity coverage especially in rural areas, which reduces the number of places where customers can utilize POS and ATMs; and frequent network failures and problems that arise during the use of e-payments, which reduces customer confidence in digital payment channels.

e) **Profile of COMESA MSMEs:** On average, the MSMEs that engaged in cross-border activities were primarily women, aged between 25-34 years. They had limited formal education, and relied on family and friends to finance their entrepreneurial ventures. These MSMEs were typically affiliated to trade associations. They were comfortable with mobile devices, and were generally happy to transact with same. Although they were uncomfortable carrying cash, they did so because of the absence of viable options when they crossed the borders. It was recorded that some informal cross border traders went through three (3) or more borders, to get to their final trading destinations.

3.2 Model Low Cost Digital Integrated Common Payment Scheme for MSMEs

Findings from field mission confirm a business case, both in terms of value of the intra-regional transactions, and the possible value-added services that could be introduced to MSMEs by the regional digital integrated payment system. Different countries within the COMESA bloc participate in other regional payment systems, such as SADC's SIRESS, COMESA's-REPSS and EAC. From a review of the publicly available information, the level of data available for the transactions, does not differentiate between segments, i.e. MSMEs compared to the large corporates.

While a digital payment system for MSMEs will, and should have a definite cross-border component, most transactions (payments) for MSMEs are domestic. Consequently, this necessitates an enabling digital platform for MSME business transactions (including payments) that will support MSMEs domestic and cross-border trade.

In this section, a summary of some of the available options for the payment scheme, including the possible advantages and disadvantages are given. Conclusions and recommendations are made including a high-level indication of the next possible steps.

3.3 Models of Integration for Digital Payment Systems

There are four main types of digital payment models for cross-border payments, namely: correspondent banking model; closed loop model; interlinked model; and peer to peer model. Within this framework, there could also be decentralized or centralized models.

3.3.1 Correspondent Banking Models

Correspondent banking model refers to an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to these respondent banks (BIS, 2018). In practice, a series of correspondent banking relationships may be involved in a single payment transaction, resulting in increased complexity, cost and processing time of the transactions.

3.3.2 Closed Loop Model

Closed loop payment systems are payments that work within a specifically defined transactional environment. Both the payer and payee must have an account within the same closed loop system. Closed loop payment systems control the participants and typically operate without intermediaries.

Potential benefits of such a network include, increased efficiencies, as well as faster and more transparent payments, while maintaining risk management and compliance standards. A growth in the number of these networks, may result in market fragmentation, which is not a significant upside to the existing correspondent banking setup, in case users need to negotiate a series of closed-network corridors. Jurisdictional variations in terms of regulatory, supervisory and oversight requirements over closed-loop proprietary systems may also prove to be a significant draw back.

3.3.3 Interlinking Model

The interlinking model links the domestic payment infrastructure. These types of schemes have struggled to meet expectations, and account for small amounts of cross border retail payments that have been made between the jurisdictions they link, as a result of cross-country variations in the legal, technical and operational aspects.

Additionally, interlinked systems usually offer a narrower range of currencies and countries as compared to a network of correspondent banks. Consequently, individuals, small enterprises, and their banks, will almost certainly need to supplement their use of interlinked structures in order to reach a wider range of countries using different currencies in the growing global marketplace (BIS, 2018).

3.3.4 Open Loop Model

The open loop model refers to a system in which buyers and sellers can send funds to one another without having direct relationship with the same bank/service provider. Similarly, the banks/service providers can transact with each other without having a direct relationship. The payers and payees are in a way connected to each other through the payments system and the intermediary banks/service providers. These intermediaries then form business relationships with end parties. [5] An advantage of the open loop system is the fact that, when a participant or intermediary joins the system, it translates into the customers automatically becoming members, and they can immediately start transacting with other end users who are already on the platform. For example, if Airtel Zambia joins the platform and Equitel Kenya is already on the platform, this means that the MSMEs that are on the two platforms (Airtel and Equitel) can transact with each other immediately. In an open loop payments system, the scheme defines the rules of operating rules to the participating banks, which must then ensure that their end parties comply with, thus creating a chain of liability[6]

3.3.5 Peer to Peer (P2P) Model

The peer-to-peer model allows users to send one another money. These can be bank offered, or there may be a PSP between the payer and the payee. Until recently, this model would have mainly involved paper-based transactions (e.g. the payer sending cash via mail to the payee). There are an array of capabilities that have emerged from fintech service providers focused on providing convenience and enabling direct payments between buyers and sellers (for example PayPal). The emergence of distributed ledger technologies and digital currencies now allows these types of transaction also to be executed electronically.

3.4 **Model Architectures**

(a) **Decentralized Model**

This is a system in which arrangements using a decentralized payments system for regional payments link the existing national settlement systems to different levels of sophistication and complexity (World Bank, 2014). Typically, these modes are structured in the form of a 'hub-spoke' structure, which has a central administrative and technical-operational facility that links the participating systems. Standardized messaging and connectivity technology provide connections between account management and the various national payment systems.

[5] Coye C., Scott B., Jones L. A Guide for the Payments Professional

[6] Glenbrook Press

Schemes that offer a decentralized settlement system involving multiple parties have been developed in regions where there is a regional currency, as well as for settling cross-border payments that are denominated by a single foreign currency. The most well-known example of a unified scheme, which had a decentralized settlement system for a regional currency, was the original TARGET in Europe, which linked the Euro RTGS systems of the national Central Banks in the EU.[7]

(b) **Centralized Model**

Centralized platforms are mostly identified with regional integration projects that have evolved into a monetary union. They use a regional currency which, by either minimizing or eliminating the distinction between cross-border and domestic payments, opens up the possibility to process both types of payments, such as in the cases of WAEMU and SADCs SIRESS. Over the past decade, centralized payment system infrastructures have also been developed regionally, where no regional currency existed, to facilitate the settlement of domestic, regional, and cross-regional payments, in more than one settlement currency.

The centralized platform model, replaces the national payment system infrastructures with a single international system. In this case, it is more appropriate to talk about the integration of the international payment system whereby, participants access the system directly or indirectly through any direct participant that already exists in the system. Centralized platforms are mostly identified with international integration projects, most notably regional ones, which have evolved into monetary unions that use a regional currency. They either minimize or eliminate the distinction between cross-border and domestic payments, and allow for the seamless processing of both types of transactions within the same system. East African Payments System (EAPS), is one example where the national payment systems are linked through the holding of bilateral accounts among Central Banks.[8]

3.5 Possible Alternative Considerations for COMESA Business Council

From the preceding discussions, MSMEs broadly face the following challenges: access to markets; where they have access, a payment system that is affordable and convenient; and issues of trust with regard to existing payment systems, notably in relation to cross-border trade payments. At the same time, the existing regional payment systems are struggling with increasing the number and volumes of transactions, which implies that they are not fully utilized.

Consequently, in order to attain sustainability in any payment intervention, these three aspects must be adequately addressed as part of a holistic digital payment strategy. Therefore, it may be important to put into consideration MSME-specific appropriately digitized services that are conceptualized in the form of an e-commerce platform in the MSME digital value-chain, i.e. separate from payments. This platform will interface with the payment system as part of the business transactions. The platform should be composed of the following constituent parts: export credit guarantee schemes; access to credit for the transactions; customs and excise duty requirements; any foreign currency specific requests; interfacing with logistics services; and digital letters of credit, among others. There is a very strong business case for such a development.

If this approach is followed, then the attributes of the regional (cross-border) payment system that is required to support this regional "hub" could be defined as part of the development process, although the payment systems operator(s) should enable such payments, as opposed to the "hub".

3.6 CBC 'HUB'

It is proposed that CBC establishes an electronic marketplace known as a 'hub' for cross-border MSMEs. Conceptually, the CBC 'Hub' will serve as the regional marketplace, connecting buyers to MSMEs in the region, thus creating the "network effect" that is required for intra-regional trade. The chart below depicts this possible envisaged network effect dynamism in the COMESA region.

[7] https://chaturvedimayank.wordpress.com/tag/regional-payment-and-settlement-systems/

[8] Evolving Networks of Regional RTGS Payment and Settlement Systems

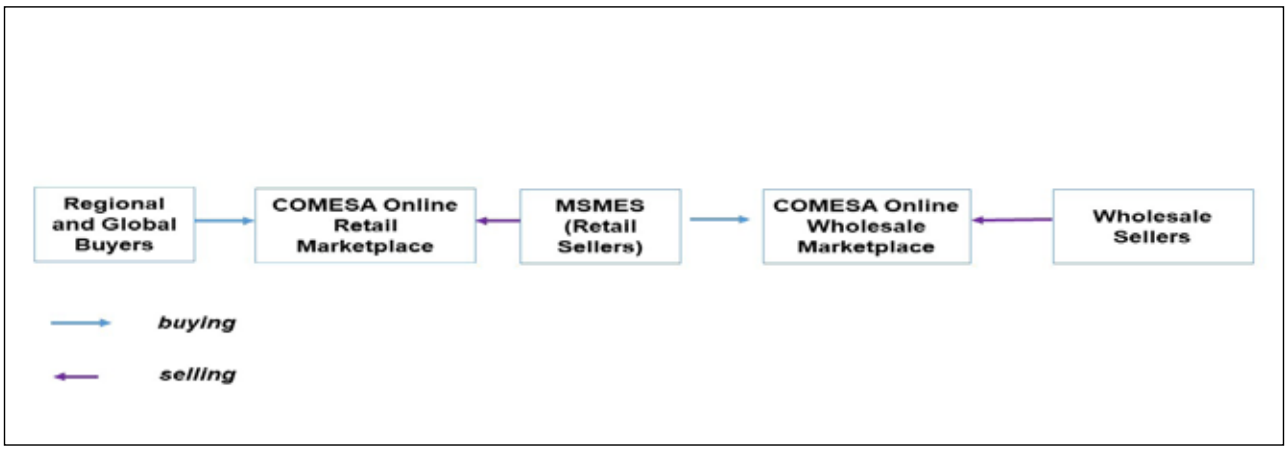


Figure 2: Proposed COMESA E-commerce Platform

Both the retail and wholesale marketplaces, could form the basis for the different product segments that CBC is prioritizing as part of its strategic framework. The focus must be on enabling MSMEs operating under the traditional retail model to transition to an easy to use and cost-effective digital interface. It is noted that there is scope for synergies with existing COMESA platforms such as the Digital Free Trade Area (DFTA).

The platform must enable MSMEs to directly acquire and communicate with customers and manage their interactions and relationships across online and offline channels. In order to create incentives for usage, considerations should be made to reduce merchant fees to as close to nil as possible, while buyer transactions must be free, except withdrawing funds, which should also be kept below a certain threshold. Functionality should allow transactions across different currencies.

3.7 Settlement System Considerations

This section addresses the third component of the payment system ecosystem - the settlement process.

3.7.1 Envisaged Payment System

There is a strong business case in terms of value of intra-regional transactions and in terms of possible value-added services that could be introduced by the regional system. In view of this development, an efficient, regional settlement bank will be chosen, which has the capability to operate both the Real-time Gross Settlement (RTGS) and Automatic Clearing House (ACH). This prevents the back and forth that happens in the case of Telegraphic Transfers (TTs) between a clearing house and a settlement bank. Ultimately, it reduces the settlement time and eliminates foreign correspondent banking charges, towards meeting the goals of the project.

Alternatively, banks, payment services providers, and all other authorized financial institutions that participate directly in the national payment system can become part of an international payments system. In this case, end parties can transact instantly through the authorized intermediaries.

MSMEs will transact through their preferred method of money transfer as below:

- Mobile Payments (Smartphones or USSD)
- ATMs, Branch Banking & Agency Banking
- Fintech payments
- Internet platforms such as e-commerce (Biznet) etc.

It should further be taken into account that the preferred method of transfer will be operating under the regulatory frameworks of each country (ICT regulators and Central Banks) for secure and transparent transactions. The money transfer methods will be dully authorized by either the financial institution, or payment services provider in their countries of origin, in order to ensure a clear chain of liability.

Depending on the model, selected insurance firms may also be involved in availing their services over the transaction period. An agreed upon profit margin will be calculated on each transaction after doing Total Cost of Ownership (TCO) that will be reasonable to the MSMEs that are involved in cross border trading over the region.

Given the feedback that was gathered in the field, there is an urgent need for an interoperable and affordable intra-regional payments platform. CBC needs to come up with the ideal model given the needs of the MSMEs. Therefore, the decision to either develop or leverage on the existing payment models lies with the business council. As indicated in this report, there is a business case for a low-cost payment system for MSMEs.

3.8 Policy Considerations

Different countries within the COMESA region are at different levels of the development of operational, legislative and policy frameworks on the payment systems. Almost all countries within the region have legislation and supporting regulations and directives on payment systems. These, however, tend to be aligned to national payment objectives rather than the regional block. Therefore, currently, a harmonized legal and regulatory framework for payments does not exist in the region. Bech et al (2020) opines that cross-border systems will face challenges that will arise from a conflict of laws (e.g. ambiguity to do with which jurisdiction's laws apply), and sealing of legal gaps that require potentially new legislation or treaties. This highlights the importance of putting into place a regulatory framework that underpins CBCs regional integrated digital common payment scheme for MSMEs.

Policy alignment and harmonization will affect a number of issues including cross-border payments and system integration, security, e-payments, channel access, data handling and protection. The World Bank Committee on Payments and Market Infrastructures (CPMI) (2016) cites the following as key aspects of the payments legal and regulatory framework: regulatory neutrality and proportionality; risk management; protection of deposits and e-money customer funds; financial customer protection; and financial integrity. It should also be able to support settlement finality, digital payments and electronic signatures, as well as interoperability across the scheme. This will also help economies to grow together and pull in the same direction regarding digital payments and digital financial inclusion.

If properly structured, policy framework on payment systems at the regional level will benefit five types of digital transactions. These are: the Business to Business (B2B) type – in which MSMEs need to participate in global, local and regional value chains; Business to Consumer (B2C) type; the consumer-to-consumer (C2C) type; Business to Government (B2G) type for tax remittances; and the government-to business (G2B) type, such as the various types of e-procurement (Rillo & Cruz, 2016).

3.8.1 Situational Analysis- Current Regulatory Scope

The comparison of the regulatory and policy frameworks in the nine (9) pilot countries was based on the input from stakeholders and the Better than Cash Alliance (BTCA), Responsible Digital Payment Guidelines[9]. The analysis indicates that, majority of the countries already have regulations or a set of policies and guidelines that deal with the underlying issues related to digital finance and digital payments; albeit most of these regulations are at a national level. Furthermore, some differences, related to AML and data protection policies some of which are more comprehensive than others, still exist. Some of these differences for instance, while Tanzania has regulation with regard to payment of interest to individual mobile money accounts, Kenya's mobile money is not treated as a savings platform, and therefore, no interest is paid to such accounts, interest is only paid on balances that are transferred to bank accounts.

3.8.2 Incremental vs Structural Changes in Cross Border Retail Payments

The design framework should consider incremental upgrades to the current arrangements of the small-value, cross-border retail payments as opposed to significant structural changes to the current business and payment practices. This is motivated by the manner with which the curve of innovations is shifting towards

[9] https://www.betterthancash.org/tools-research/case-studies/responsible-digital-payments-guidelines

disintermediation of payments functions through fintechs, regtechs and insuretechs. This may result in the competitive balance of payments and marketplace success and financial intermediaries tipping and in turn impacting on payments and financial markets architecture. As a result of this, effort should be put into effecting the payment functions such as fintechs and non-bank PSPs that are not currently regulated or covered by existing regulatory regimes for deposit-taking or non-deposit taking (credit only) financial institutions in many COMESA markets. One notable recent example is the recent move by the Central Bank of Kenya's efforts to curtail lending and payments services by credit only mobile fintechs/lenders such as TALA and BRANCH.

3.8.3 Preliminary Assessment

There is need to understand the nature and functionality of small-value cross-border retail payments systems in order to:

a) Identify problems, inefficiencies or improvements it is addressing;
b) Identify the affected part or parts of the value chain;
c) Map the MSMEs Payments Journey (end users);
d) Identify country level impediments and enhancers; and
e) Identify the level of implementation and readiness of e-KYC and Consumer Due Diligence metrics.

It is also critical to carry out an assessment of the country level bilateral and multilateral agreements, and political relations between countries. This will allow for the proactive identification of teething issues and allow enough time to either deal with them or attempt addressing them.

3.8.4 Payments Assessment

The payment system design is largely dependent on the clearing and settlement model that is ultimately adopted. This should focus on increased market and payments efficiency, improve safety of payments, clearing and settlement systems, promote technological, product and service innovations and influence, but not to determine how to improve systems for cross border remittances.

The engagement with MSMEs indicated that they rely on their money to make orders and payments, thus any delays may make them to revert to cash transactions, hence the need for an instant inclusive payment solution. The instant payment systems should therefore encompass two main features:

a) Speed; and
b) Service availability.

This means that final funds are credited and available either in real time or near-real time, seven (7) days a week, and 365 days a year. Not only should the funds be available within seconds or minutes, but the service should also run on a continuous basis almost always.[10]

3.8.5 Payment, Clearing and Settlement

Settlement in an open loop system refers to the process through which the intermediaries receive or send funds to each other. The settlement function in an open loop system can be done on either a net or gross settlement basis[11], which may require a net debt collateral for some participants to safeguard the system from systemic attacks.

3.8.6 Ownership

Decisions must be made with respect to ownership of the scheme, that is: bank owned; third party owned; or owned by the participants in the sector. Ownership considerations are pivotal before the drafting of the policies. This will partially determine whether the solution will be for profit or not, and the resultant effect on the financial modelling of the same.

[10] IIPS - www.digitalfrontiersinstitute.org

[11] Benson C.C. at al, (2010) 3rd edition, Payments Systems in the U.S.A Guide for the Payments Professional, Glenbrook

3.8.7 Regulation

Each individual country has a mix of governmental and/or private rules that regulate payment systems. Government rule is both by law, and through regulations that are issued by government agencies to implement these laws. Private system rules are mostly association based and include things that need to be considered when setting up regional policies, those that determine the technical system rules, and the operational rules that determine the compatibility of payment messages or codes.

3.8.8 Risk Severity Matrix

Small-value, cross-border retail payments in an interconnected system require that more data is shared across the key payment service providers and intermediaries. While these may offer benefits in ensuring greater market transparency and more effective risk management across payments and settlement systems, they may expose MSMEs to digital risks such as:

a) Systemic events and outages (like VISA recently experienced in Germany).
b) Online digital (hacking) risks.
c) Failure of a systemic Financial Markets Infrastructure (FMI) that would cause an immediate payments systemic outage which, through contagion and interconnectedness could spread to other payment service providers and NPS.
d) Broad financial market risks at the early stages of development and implementation
e) Unknown future risks (due to the digital nature of payments solutions).
f) Risks of interconnections with other systems e.g. National Digital IDs, Distributed Ledger Technology (DLTs).
g) Measures to prevent, detect, and address execution of malicious codes, faulty payments instructions or plain fraudulent transfers (in a high Fraud environment).
h) Operational and security risks facing End Users, Front-End PSPs, Back-End PSPs, and Central Banks (CBs).
i) Key operational risks affecting the resilience, reliability, security, and operational capacity and scalability of small value, high volume payments.

In addition, there are also specific risks relating to data and privacy, such as data management and protection, guarantees on data integrity and customer/ transaction data traceability, and data privacy and confidentiality.

3.8.9 Stakeholders input - Policy and Regulatory Considerations

The stakeholders who were interviewed cited some policy and regulatory gaps that need attention in developing a regional payment scheme. They identified the following policy and regulatory gaps:

a) Security and consumer protection principles;
b) Alignment of national and regional financial services regulations (money laundering, data privacy, Know Your Customer [KYC)], etc.);
c) Inter-Bank Payment Compensation Rules;
d) Routing rules;
e) Regulatory and operational framework;
f) Mobile money guidelines;
g) Interoperability with various payment systems and distribution channels;
h) Ease of access, especially to MSMEs;
i) Clearing and settlement issues;
j) Exchange rates convertibility; and
k) Complementing existing national and regional systems

a. Restrictions on Foreign Payments

A number of countries have implemented administrative or legislative requirements that inhibit the free flow of payments across the region. There is therefore need for the CBC to lobby/advocate for MSMEs to be considered a priority sector in foreign currency allocations. This can be managed through a mechanism where MSMEs exports are netted against their imports. This is critical towards ensuring that the member country's balance of payments position is not affected.

Also, countries can be encouraged to allow MSMEs to either use free funds or a prefunded model where if the allocation for MSMEs is used up, payments will be delayed until the next allocation.

The overall country position calls for a meeting with the relevant Central Bank departments, as well as relevant trade and MSME ministries of the respective countries.

b. Absence of Escrow Facilities

It is noted that in some instances, although MSMEs made orders for goods online, and paid the required deposits, the actual deliveries did not occur. In such cases, the option would be litigation, which tended to be more costly than the funds that had been lost. As a result, MSMEs would forfeit their funds, which adversely affected their willingness to trade across borders.

This was specifically pronounced in Mauritius, where MSMEs indicated that they had lost interest of transacting with mainland Africa, and had resorted to trading in Europe and Asia. This was attributable to their bad experiences with mainland Africa where they did not have any mechanism for recourse.

c. Gender inclusiveness

One of the key takeaways from the mission, with regard to gender was a statement from National Smallholder Farmers' Association of Malawi (NASFAM) which stated "…instead of bringing the women to the market, there is need to bring the market to the women." A special consideration should be made to ensure that the digital route embraces gender inclusive policies, in order to facilitate women-owned MSMEs in the physical movement of goods.

It was observed that while some women indicated that they are comfortable with smartphones, a majority did not own the smartphones they were using. Both the SIM cards and mobile money accounts were not registered in their name hence legally, the financial transactions were not considered to be theirs. In some countries the microfinance institutions indicated that although some women took loans for their businesses, the money ended up with their husbands. When the bank delved in the data further, they realized that while some women were defaulting on their own accord, a significant number were failing to repay because of their spouses.

With regard to the foregoing, there is need to embed into trade policies into a micro-ecosystem to facilitate women empowerment, skills upgrading and market connections for women. Traders in rural Uganda were not aware of the existence of the Buy Uganda Build Uganda (BUBU) initiatives, yet they were struggling to find markets.

In relation to this, it is therefore imperative that, the CBC undertakes technical capacity building programs aimed at training women and MSMEs on standards, market access and digital technical skills in the development of the regional integrated digital common payment system for MSMEs.

d. Comparative Regional Frameworks on Common Payment Schemes

There are a number of regional payment schemes that already exists globally and within the African continent, which facilitate cross-border payments. These include: EU Single European Payments Area; SADC SIRESS; West Africa Economic and Monetary Union (WAEMU); East Africa Payment System (EAPS); and COMESA REPPS. Different regulatory options that are proposed include building on the existing RGTS systems as is the case in the EAC or through separate governance structures such as the SEPA, SIRESS and REPSS.

3.8.10 Considerations for CBC

It has been noted that there has been an increase in the number of countries coming together to develop regional payment rules, schemes, and infrastructures, and evidently there is a number of different regional payments integration models for the CBC to consider. Each model of regional payments integration has its own definition of success, and although there are diverse measurements of success, there are some common features among the different models. Most models seem to be in agreement that successful implementation of a regional system can be achieved by maximizing the effects of enablers while minimizing the impacts of disablers.

According to Lipis L. and Adams C. (2014), enablers roles include ensuring the widespread involvement of a wide range of stakeholders, receiving cooperation from the banking industry, regulatory, strong political will, looking at lessons and borrowing standards from other geographies, bringing in outside experts when needed, ensuring common standards in regions that need to build domestic payment systems from scratch, the existence of modern IT platforms within banks and PSPs, and limiting participation in the regional schemes or systems.

They further observed that disablers include regional payments integration and the existence of varied levels of payment system sophistication within a region, lack of uniformity in implementation standards, using a third currency for settlement or conversion, failure to involve all stakeholders, lack of modernized internal infrastructures within banks, pursuing the "build it and they will come" model, having too much inclusiveness within a regional organization, banks focused on regulatory compliance instead of innovation, and unreliable energy supplies and telecommunication networks within the region.

In relation to this, it is critical that CBC focuses more energy on the enablers as they make a decision on the payment systems.

3.8.11 Policy Areas for Harmonization

The CBC in collaboration with Trade and Development Bank (TDB) conducted a high-level Public-Private Dialogue (PPD) in Kigali, Rwanda, on 20th January, 2021, to agree on the building blocks for a model policy with regard to the Digital Integrated Regional Payment Policy for MSMEs.

During the meeting, it emerged that the key areas of harmonization of the digital regional payments policy and regulations across the COMESA region are underpinned by the digital financial inclusion as a region-wide goal, and have a symbiotic relationship with the design principles. As such, eight harmonization areas were presented in the dialogue and participants asked to indicate their support for each of the areas as follows:

(a) **Settlement system operating rules and irrevocability of transactions** – The need to harmonize irrevocability regulations so that transactions are not treated differently in different Member States;

(b) **National financial inclusion framework** – The need for a harmonized model for a regional digital financial inclusion framework that delivers all the foundational principles of DFS empowerment of MSMEs as indicated above;

(c) **Anti-money laundering and combating the financing of terrorism** – The requirement to harmonize AML/CFT regulations so that the treatment of the same in different Member States does not pose a constraint on region-wide and cross-border financial transactions;

(d) **Consumer protection on Digital Financial Services** – The requirement for a harmonized model for consumer protection guidelines to ensure the protection of data and money;

(e) **Inter-operability policy** – The need for a harmonized inter-operable integrated digital payment infrastructure and policy framework;

(f) **Cyber security for regional common digital payments scheme** – The need for a harmonized cyber security policy framework for digital financial services, including choice of appropriate technology for the same;

(g) **Mobile-money guidelines** – The requirements for harmonized mobile money guidelines with regard to issues such as costs and withdrawal limits per day across the Member States; and

(h) **Electronic Transactions Act** – Member States to put in place harmonized Electronic Transactions Act to enable the consistent verification and authentication of legitimate users of the scheme.

3.8.12 Conclusions

The following were the conclusions and commitments for the way forward from the dialogue:

(a) The meeting unanimously agreed to the proposed harmonization areas of the report , subject to adjustments and inputs from the meeting decisions;

(b) A model COMESA Digital Integrated Common Payment Policy and Rules book will be revised further bearing in mind the considerations of the meeting, to adopt harmonization areas, at a second validation meeting.

(c) Following adoption, a roll out plan by Member States to domesticate the policy model, while aligning it with the existing national legislatives at a national level, with a vision of implementing the COMESA-wide digital payment system and in the process, validate the model policy.

4.0 POLICY AND REGULATORY RECOMMENDATIONS FOR A DIGITAL INTEGRATED REGIONAL COMMON PAYMENT SCHEME FOR MSMES

4.1 Key drivers of policy and regulatory harmonization

The transformation of a payment system is a process that requires a significant amount of flexibility. Payment regulations should be anchored in clear and specific objectives, which should be shared across all the Member States. At the same time, success is an ecosystem value play, and players must focus on and understand how their value proposition integrates into the ecosystem.

The payment space is rapidly evolving with changes in both the wholesale and retail aspects. These changes necessitate a review of the regulatory frameworks within the region to ensure that they are aligned to international best practice and standards. These matters relate, but are not limited to, the payment aspects of financial inclusion, digital currencies, cyber security, recovery and the resolution of financial market infrastructures, including cross-border payment facilitation (SARB, 2018).

Furthermore, various initiatives that are aimed at harmonizing trade and other aspects of the economy, of which payment systems are a component of are in existence within the region. The increased focus on the development of retail payment systems, as well as the need for increased financial inclusion, specifically for women, access to the payment systems, and competition necessitates harmonization and a review of the current payments legislative framework to ensure that they are appropriately aligned with the general principles.

4.2 Overarching objectives underpinning a digital regional common payment scheme for MSMEs

The policy framework must outline the key objectives and including the interventions it seeks to address.

These objectives may include the following:

a) **Financial Inclusion:** This remains one of the region's priorities, and is recognized for its vital role in eliminating poverty and reducing inequality, providing for MSMEs trade facilitation, and reduce barriers to access to financial services.

b) **Open loop systems:** This allows the two end parties to transact with each other without having direct relationships with each other's banks. Similarly, the banks, can transact with each other without having a direct relationship.[12] Open loop systems are the backbone of most successful payments schemes world over, and they rely on intermediaries, usually banks, to connect end parties. The advantage of the open loop structure is that it allows a payment system to scale up rapidly, which is critical in any new system that is being introduced into the market. Benson et al., (2010) argues that as intermediaries join the payments system, all their end party customers are immediately accessible to other intermediaries participating in the system.[13] From a regulatory and policy perspective, it is recommended that the system is open loop and interoperable.

c) **Interoperability:** This recognizes the different payment interfaces, and the need to ensure that they can all work together seamlessly without an additional cost burden on the consumer. Considerations would be made for unified payment systems that allow consumers to make, receive, and request for payments using unique identifiers.

d) **Promoting competition and innovation**: This is facilitated by enabling non-banks to participate directly in the payment system provided they are regulated. Typically, direct access to payment systems are the preserve of regulated providers. This is a necessary consequence of the need for appropriate oversight, and for the stability of the payment system. Direct access by end-users is, from a regulatory perspective, an unprecedented and high-risk scenario. This implies that, access to the payment system (national and cross-border) will be through regulated providers, e.g. banks and regulated non-bank operators such as the PSPs. Competition should be fostered by facilitating cross-border payments for banking and non-banking operators, guided by COMESA-wide standards, and supported by send/receive licenses across the region.

[12]Benson, C, C., Loftesness, S., and Jones, R. (2010) 3rd edition, Payments Systems in the U.S.A Guide for the Payments Professional, Glenbrook

e) **A clear and transparent regulatory and governance framework**: This entails a collaborative approach to the regulatory review and putting into place robust governance mechanisms, to monitor and oversee the implementation of the solution. Ideally, this should include attaining the relevant political buy-ins.
f) **Cost-effectiveness:** There is need to ensure that solutions come at a price level that does not constrain the end user.
g) **Regional integration:** This confirms and reiterates the importance of ongoing harmonization efforts and positions with regard to the digital payment systems within this paradigm.
h) **Flexibility and adaptability**: It includes the need to collaborate with other role players, such as FinTechs, and other telecommunication providers, to deliver a cost-efficient system. Regulatory frameworks need to be accommodative enough to allow non-banks to be innovative in the payment system. This could be facilitated through regulatory sandboxes.
i) **Common data standard:** Without a common data standard that all participants in the regional infrastructure or scheme agree to use, it is difficult for banks, Central Banks, corporates, and other stakeholders to communicate with each other. This results in inefficiencies and mistakes that can doom the project from the start.[14]

4.3 Main policy issues, proposals, and recommendations

Based on the plan, and the policy and regulatory issues that were identified, the required policy instruments can be designed, to ensure that the regulatory changes are in line with the development of the MSMEs. Major consideration should be put into improving trust within the sector through increased visibility of the system. Overall, this will be done through five key considerations as summarized below:

i. **Facilitation of cross-border payment integration**

a) Open loop and interoperable regional payment infrastructure to foster innovation and competition among service providers, while maintaining system stability and security.
b) Harmonization of cross-border payments regulation and standardized system design.
c) Enable the biometrics standard for identity verification in the e-KYC to facilitate future payment innovations.

ii. **Fostering innovation and Payment Services**

a) Encourage financial institutions to test each innovation in their own sandbox, in order to increase business opportunities aimed at addressing consumer needs at a faster pace.
b) Promote pilot projects in partnership with the public and private sectors for the implementation of end-to-end e-Business processes and digital payment to reduce costs and increase operational efficiency.
c) Support the adoption of various technologies in the development of payment services, such as, contactless payments, an alternative service in place of cheques, cross-border funds transfer and convenient, secure and low-cost payments , and payment services that help build trust in online shopping,, such as a secure / escrow payment facility.

iii. **Promoting Access and Use of Payment Services (Inclusion)**

The development of a digital payment system in the COMESA region will yield the highest benefits, if it caters for MSME needs. It is therefore essential to improve access to, and ensure the widespread use of convenient digital payments towards replacing the use of cash and cheques. Key measures include:

a) Encourage increased adoption of the digital payment systems by government agencies and state enterprises that frequently transact with the public to broaden the usage of digital payments.
b) Reduce costs related to mobile payments, in order to allow people in remote areas to gain access at a low cost.
c) Increase the availability of infrastructure country-wide.
d) Educate consumers on safe practices and correct use of digital payments and technology through various channels, to promote consumer confidence and empower them to choose appropriate services that best serve their needs.

[14] Cross-border low value payments and regional integration: enablers and disablers

iv. **Strengthening supervision and risk management (Immunity)**

Safeguarding system security and ensuring sound consumer protection are essential to the promotion of stable payment systems, and increasing consumer confidence in electronic financial transactions, particularly today when technologies are becoming increasingly complex and changing rapidly. Key actions are:

a) Encourage the adoption of cyber security standards at both organizational and national levels, in close collaboration with industry
b) Build a sound management mechanism, and good governance among payment service providers
c) Improve consumer protection
d) Enhance the supervisory framework to ensure it is proportionate with the nature and risk profile of the business providers (risk-based supervision)
e) Adopt the Regulatory Impact Assessment (RIA) principles in the policy formulation and revision processes towards fostering innovation and reducing regulatory burdens

v. **Enriching Payment Information**

Data has become a fundamental factor that is driving economies towards the digital economy. In this regard, payment data can be utilized in many aspects, including the use of: payment data to analyze online stores, and cross-border payment data to evaluate expenditures of foreign tourists'. Therefore, COMESA must emphasize on proper data management and data integration. Key measures under this initiative include:

a) Integrate payment data among capable entities, to encourage data sharing and provide in-depth information for all parties to be used under appropriate and rigorous data governance and privacy measures.
b) Enhance efficiency in payment data analysis and utilization to foster the development of financial innovations, and support various policy works and supervision.
c) Promote the adoption of modern technology, such as machine learning, to increase speed and accuracy in data processing. COMESA must also focus on improving the quality of existing statistical data, alongside the acquisition of new data or developing new indicators and collaborating with government agencies in establishing a micro-data infrastructure that is necessary for national policy implementation.
d) Allow regional and cross-border data flows.

4.4 Way Forward

Most COMESA countries have the necessary foundational legislative frameworks to support the functioning of a regional digital common payments scheme for MSMEs. The COMESA Treaty already provides the foundation for the integration of financial services within the region. The participation in the regional payments schemes (SIRESS, EAPS, and REPSS) by COMESA Member States highlights the readiness and ability of the countries' regulatory systems to enable a regional retail digital payment scheme for low value customers -such as MSMEs.

Each country is unique and has its own challenges, and some economically smaller countries would fear joining the bandwagon, because of the need to protect their monetary systems from imported risks. As such, it is critical to analyze the various payment services and the respective countries' policies, regulations guidelines and laws, prior to developing a comprehensive policy for the region. It is however recommended that because some countries take longer to come up with policies, the COMESA policies supersede all other policies in dispute, although individual countries must agree on this. Discussions on legal constraints facing cross-border payments remains to be an outstanding issue.

5.0 RECOMMENDATIONS AND CONCLUSIONS

This section of the report captures key interventions and recommendations to Member States that will support further engagement on addressing the integration of MSMEs into digital financial space for cross-border trade.

5.1 Recommendations

The following matters were raised as key recommendations for Member States consideration by the respondents;

i. **Acceleration of implementation of digital policies within the region**

Member states are urged to accelerate the implementation of the twenty-three guiding digital policies that form the basis for supporting the level of readiness for e-trade across the COMESA region.

ii. **Adoption of the Model Digital Common Payment Policy and Implementation Framework to support payment schemes for MSMEs**

Member States are requested to consider the proposed COMESA Digital Common Payment policy and implementation framework for adoption and domestication at a national level. The adoption will pave way for the groundwork of developing a business model and implementation framework on regional digital low value payments system for MSMEs that will be presented to Member States for their consideration.

The business model can be implemented in fewer or smaller subsets within the COMESA region to test the system in a sandbox like environment. In this way, regulators and intermediaries in the payment system and the last mile, will all be in the sand box environment, thus regulations can either be adjusted to suit the new normal, or entirely new regulations can be developed. The model can then be launched in the rest of the region once participating countries express enthusiasm with it.

iii. **Development of a dedicated program to support MSMEs access to digital financial services.**

Member States are requested to implement national programs aimed at developing the technical skills of MSMEs in order to strengthen their utilization of digital solutions in their markets and across the region. This will effectively boost the percentage of regional intra-Africa trade. It is further recommended that the MSMEs requirements are considered in the regulatory decision-making processes with a strong interest in their value, as the key drivers of industry in terms of volume within Africa.

The study revealed that MSMEs need digital financial inclusion training for them to be able to use the proposed new regional payment system. There is need for in-country capacity building programs aimed at educating MSMEs on the digital finance systems.

iv. **Development of dedicated in-country and regional Capacity Building Financial Literacy Programs.**

Member countries should expose their citizens to financial literacy programs. MSMEs recommended that in as much as Science, Technology, Engineering, and Mathematics (STEM) subjects are critical in schools for innovation in country and within the region, Financial Literacy, Entrepreneurship, and Career Education (FLEC) is also critical towards ensuring sustainable economic resource management.

The study revealed that a number of women were in business because they were desperate and needed a way to look after their families. It was however noted that they lack the necessary financial skills, which results in their businesses remain informal and one step away from collapsing.

It is therefore recommended that the COMESA countries conduct financial literacy training for MSMEs to enable them better manage their enterprises. Financial literacy training will catalyze the uptake of digital platforms and enhance digital financial inclusion thereby opening up markets beyond the borders, thus positively impacting on trade within the COMESA region. The study revealed that 79 percent of the MSMEs had smartphones, and 21 percent had the basic and feature phones. Interestingly, 33 percent of the MSMEs indicated that they need basic training in phone usage (digital platforms), 23 percent require intermediate training, while 44 percent

indicated they need advanced training. This showed that although they have the gadgets, a vast majority of the MSMEs are not fully aware of the potential of these gadgets beyond communication. Capacity building programs will reveal the advantages of digital and technical skills in making markets accessible for the MSMEs. Training in negotiating skills and contracting in business is also critical for the MSMEs, especially when they start participating in the international markets.

v. **Making Markets work for the MSMEs**

The study revealed that, MSMEs and informal sector players who are in manufacturing face varying challenges with regard to accessing markets. The CBC team interacted with manufactures who indicated that, in as much as they are willing to buy from MSMEs, their main challenge was related to the products lacking quality standards. To make markets work for the MSMEs, it is recommended that:

a) MSMEs be trained in proper standards when it comes to production. There is also need to link manufacturers, the MSMEs, and the smallholder farmers which will keep them well informed of what is required in terms of quality standards and quantity.
b) While standardization was a big issue, failure by MSMEs to meet the quantities that were required by manufactures was also an issue of concern. MSMEs must be trained and encouraged to work together by forming supply consortiums for the local and export markets to enable them meet demand, and retain customers. The study revealed that only about 50 percent of MSMEs worked in collaboration with each other. This figure must improve substantially if the MSMEs are to develop in a sustainable manner.
c) There is lack of information on trade trends and market forecasts. It was, encouraging to not that about 87 percent of the MSMEs indicated that they were willing to receive information on their mobile devices. It is recommended that a platform is created that shares market information with MSMEs on a daily basis.

vi. **Instant inclusive payments**

MSMEs may not have the budgetary elasticity that big companies have. As such there is a need of instant settlement of payments since the MSMEs cannot afford their working capital being tied up in the payment system.

Majority (38 percent) of the MSMEs indicated that they are comfortable with mobile money. It is therefore recommended that any payment system that will be considered should allow for access through the phone. Interestingly, majority (55 percent) of the MSMEs indicated that they would consider ordering inputs online and paying digitally, while 59 percent reported that they would consider selling their produce online and getting paid digitally. From this finding, it can be deduced that it is important to use the gadgets that the MSMEs are comfortable with.

In order for payments to be affordable, there is therefore need for COMESA to come up with an interoperable, open-loop system that allows all sector players to participate in the scheme.

vii. **Commissions, limits and fees**

It is recommended that the scheme must be scalable, robust, and should be operated on a not-for-loss basis. The participants should not make profits from the system itself, but they will be allowed to earn profits through adjacencies. This way, it will be affordable for MSMEs, the informal sector, as well as individuals who intend to use the platform for domestic remittances. A significant number of the MSMEs who were interviewed were of the opinion that transacting through digital channels was expensive.

Another challenge that was shared by MSMEs are the low limits allowable on their accounts. Low transaction limits results in more transaction time being needed to complete orders. Secondly, daily transaction limits may also not be adequate for some orders, while monthly transaction limits may mean that the MSMEs are unable to continue running their businesses as a result of having reached the mandated limit. While it is appreciated that each country is unique, the recommendation is that a risk-based approach to AML/CFT becomes central to implementing all the FATF standards.

It is also recommended that daily transaction limits be increased from an average of US$500 to US$3000. In the same vein, it is understood that the scheme must be sustainable, while operating as a not for loss entity. It is therefore recommended that the pricing for cross-border payments be standardized at about 0.75% of the total amount of money being sent. To ensure uniformity and fair competition, there is also need to develop COMESA digital payment guidelines.

viii. **Data security and consumer protection**

It is also critical that for the success of the payment scheme, consumers ought to trust the system. While MSMEs may be happy to use the system, there is need for their data to be protected by making their transactions irrevocable. Tariffs should be easily accessible by consumers, in addition to a validation module, before funds are transmitted to the payee.

In cases where countries do not have data and/or consumer protection regulations, the regional standards will be used. In cases where there are disputes, the regional data and consumer protection guidelines will be the supreme guidelines. Before the payment scheme becomes operational, it is recommended that scheme rules explicitly indicate the roles of each participant, as well as highlighting all compliance and risk issues including the penalties in case participants are found wanting.

ix. **Financial deepening**

While most of the MSMEs have access to transacting accounts, majority still lack access to financial services, which limits their options. The MSMEs indicated that most of the financial service providers do not accept their mobile money statements for credit analysis, which excludes them from accessing affordable credit. Most small-holder farmers are a step away from falling back into poverty, although there are insurance products that they can afford, if only the collection cycle can be changed. It is recommended that participating financial service providers offer tangible incentives for MSMEs to adopt and use digital financial services.

5.2 Proposed options on a business model for the common digital retail/low value payment system

The proposed options considered in this report include the following:

a) Developing a completely new retail payment system;
b) Leverage existing solutions already in the market; and
c) Leverage open-loop interoperable systems designed to opening economies

	Option A- Develop New System	Option B- Leverage existing systems	Leverage open-source software
Benefits	✓ Increases available payment options which could potentially improve the efficiency of the cross-border retail payments market	✓ Central banks already have accounts set up. ✓ Reduces foreign correspondent banking charges ✓ Provides high trust channel as payments are exchanged through central banks.	✓ Users can easily acquire and use DFS services ✓ Affordable ✓ Reliable ✓ Plug and play ✓ Open-loop/ Interoperable ✓ Irrevocable Payments
Challenges	✓ Cost and administration set up- cost of putting together an entirely new system ✓ Potential duplication and cannibalisation of existing resources ✓ Need to drum up new political will and support	✓ Legacy systems and costs associated with interfacing with newer technologies. ✓ Current low uptake by banks ✓ Ability to adapt to new and modern standards such as distributed ledger systems	✓ Lack of political will ✓ Fear of cloud-based technologies ✓ Absence of laws supporting its implementation

5.3 Conclusion

The key consideration in choosing the best option should be based on what the system can offer and not on the basis of who owns or developed the system. The best option should have the following characteristics:

- A digital payment system that facilitates instant inclusive real time retail payments.
- Interoperability
- Be able to exist alongside and among other payments systems in the country or region.
- Open loop
- Decentralized
- The ownership of the payment scheme should encourage rather than stifle innovation
- Affordability
- Robust
- Secure and fraud proof
- Standardized – in terms of messaging
- It should accommodate both push and pull payments, but have push payments as the standard, and pull payments as an option.
- Instant or near instant settlement because MSMEs cannot afford their working capital being tied down in a payment system

It should be noted that the Business Case report will inform the formulation of a draft model policy and regulation guidelines/ rules book for a digital integrated regional common payment scheme for MSMEs in COMESA. The regional model policy will address existing policy gaps and facilitate MSMEs to carry out affordable digital transactions in the COMESA region. A sound model regulatory framework is therefore expected to be developed to support the payment, clearing and settlement of low value transactions within the Region. The business case and model policy framework together with the rules book will subsequently serve as a foundation for the development of the business model, governance, and operational aspects of a regional digital common payment scheme for MSMEs.

The business case study for common payment policy guidelines towards a COMESA digital payment scheme for MSMEs, is an initiative of the CBCs Digital Financial Inclusion project which is aimed at making markets work for the poor in the region, especially those at the bottom of the financial pyramid. This initiative will eventually Increase intra-regional trade, through the formalization of MSMEs and in particular, cross border traders, small scale farmers, and women entrepreneurs into digital financial services.

After the development of the Business Case, the following key milestones have been achieved;

a) National validation meetings of the Business Case study in nine countries
b) Six sub-regional sectoral stakeholder meetings, where eight policy areas for harmonization were identified
c) High Level Public Private Dialogue on the consideration and adoption of model policy framework - first validation meeting

The next actions will involve the second validation meeting of model policy framework, development of the business model, and implementation of the digital regional integrated common payment scheme for MSMEs.

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