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Cross-Border Payments: South Africa- Zimbabwe Corridor Diagnostic Report

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Contents

Abbreviations and Acronyms	4
Preface	5
Executive Summary	6
Recommendations	8
I. Introduction	10
II. Framework for the Diagnostic	13
A. High Costs	13
B. Speed	14
C. Access	14
D. Transparency	15
III. Status in South Africa–Zimbabwe Payment Corridor	16
A. High Costs	16
B. Speed	18
C. Access	19
D. Transparency	19
IV. Recommendations	20
A. Reduce Cash Dependency	20
B. Enable Proper Application of Risk-Based Approach to AML/CFT	20
C. Grow Transaction Volume	21
D. Shift from Informal to Formal Channels	21
E. Enhance Payment Infrastructure	21
F. Review Legal and Regulatory Framework	22
G. Enhance Financial Inclusion	22
V. Next Steps	23
References	36

Figures

1. Remittances to Zimbabwe	11
2. Remittance Costs	11

Annexes

I. G20 Roadmap for Enhancing Cross-Border Payments	24
II. An Overview of the Data on the South Africa-Zimbabwe Corridor	26
III. Overview of Cross-Border Payment Services in South Africa	28
IV. Legal Assessment	30
V. Meetings with Representatives from Public, Private, and Non-Profit Institutions	34

Abbreviations and Acronyms

AD	Authorized Dealers
ADLA	Authorized Dealers with Limited Authority
AML	Anti-Money Laundering
API	Application Programming Interface
B2B	Business to Business
CDD	Customer Due Diligence
CIT	Cash in Transit
CFT	Combating the Financing of Terrorism
CMA	Common Monetary Authority
CPMI	Committee on Payments and Market Infrastructures
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FCI	Finance, Competitiveness and Innovation Global Practice of the World Bank
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FPS	Fast Payment System
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMTT	Intermediated Money Transfer Tax
KYC	Know Your Customer
MCM	IMF Monetary and Capital Markets Department
ML	Money Laundering
NRA	National Risk Assessment
P2P	Person to Person
PAFI	Payments Aspects of Financial Inclusion
QR	Quick Response
RBZ	Reserve Bank of Zimbabwe
RTGS	Real-Time Gross Settlement
SADC	Southern African Development Community
SARB	South African Reserve Bank
SME	Small- and Medium-Sized Enterprise
SRA	Sectoral Risk Assessment
TA	Technical Assistance
TF	Terrorist Financing
TCIB	Transactions Cleared on an Immediate Basis (SADC's regional FPS)
USD	United States Dollar

Preface

At the request of the South African Reserve Bank (SARB), a joint mission from International Monetary Fund (Monetary and Capital Markets Department and Legal Department) and World Bank (Finance, Competitiveness, and Innovation Global Practice) visited Pretoria, South Africa from August 5 to 13, 2024 to assist the authorities in investigating the high costs and slow speeds in the South Africa-Zimbabwe retail payment corridor.

The mission met with representatives from public, private, and non-profit institutions in South Africa and Zimbabwe (see Annex VI for the detailed list). The mission wishes to thank SARB and Reserve Bank of Zimbabwe (RBZ) officials for their cooperation, productive discussions, and their hospitality.

This diagnostic report presents the mission's assessment and main conclusions as of September 10, 2024. An aide memoire including the recommendations of the mission was shared with the South African authorities. The report will be reviewed in IMF and World Bank headquarters and is not final until review comments have been incorporated.

Executive Summary

The G20's initiative to enhance cross-border payments by 2027 aims to make transactions faster, cheaper, more transparent, and more accessible globally. Despite these efforts, significant challenges remain, particularly in regions like sub-Saharan Africa where remittance costs are among the highest globally. The South Africa-Zimbabwe corridor, a critical remittance channel within the Southern African Development Community (SADC) region, exemplifies these challenges. Zimbabwe, heavily reliant on remittances, received nearly half of all remittances from South Africa within the SADC region in 2023, contributing 9.6 percent to its GDP. However, the cost of sending remittances from South Africa to Zimbabwe averaged a high 12.7 percent in the first quarter of 2024, far exceeding the G20's target, set forth in the Sustainable Development Goals, of 3 percent by 2030. The South African Reserve Bank (SARB) requested a diagnostic mission to investigate these high costs and identify solutions to improve the efficiency and affordability of remittances in this key payment corridor.

The diagnostic mission, conducted from August 5 to 13, 2024, in Pretoria, South Africa, revealed several underlying factors contributing to the high remittance costs. One of the primary challenges is the dominance of USD cash in Zimbabwe, driven by a deep distrust in the local currency. This reliance on cash not only incurs substantial operational costs but also hinders the adoption of more efficient digital payment methods. Cash handling involves significant expenses, including the costs of cash-in and cash-out processes, security measures, transportation, and logistics. These costs are particularly pronounced in Zimbabwe, where cash-related expenses account for over 50 percent of the total cost structure for remittances. The logistical complexities of managing and securing physical USD cash, such as flying cash between countries and delivering it to payout locations, further intensify these operational burdens. Moreover, the preference for cash transactions is exacerbated by the fact that many Zimbabwean migrants in South Africa lack the necessary documentation to access formal financial services. This documentation gap makes it difficult for migrants to open bank accounts or utilize digital financial services, forcing them to rely on cash and informal remittance channels, which are more expensive and less secure. At the same time, it is important to note that the use of cash for cross-border payment transactions is not necessarily only due to the barriers related to making cross-border payments digitally.

In addition to cash dependency, stringent reporting requirements and lack of a risk-based approach to implementation of AML/CFT across South Africa and Zimbabwe present significant barriers to reducing remittance costs. The stringent reporting requirements under the Immigration Act of South Africa, which mandates that financial institutions verify the citizenship or residence status of their clients, create substantial compliance costs. These requirements often result in the exclusion of undocumented migrants from formal financial services, further driving them toward informal channels. Furthermore, while remittance payments from South Africa to Zimbabwe are generally considered as posing lower risk of money laundering and terrorist financing (ML/TF) by supervisors and Authorized Dealers with Limited Authority (ADLAs), the reluctance of banks in South Africa to provide banking services to ADLAs due to perceived exposure to compliance risks reflects a lack of shared understanding of ML/TF risks among market participants. The dominance of cash in the market may also add to the ML/TF risks as perceived particularly by South African banks. As a result, ADLAs are often forced to seek alternative, more expensive financial arrangements to maintain their operations, contributing to the overall high cost of remittance services in the corridor. The current legal and regulatory regimes for remittances and payment system are also not conducive in ensuring fair access to market and payment systems for all providers. The remittance service providers are required to partner with banks to offer remittances domestically and to participate in the national payment system. This has constrained the cost effectiveness of remittances domestically and on cross border basis.

To address these challenges, the diagnostic report outlines several key recommendations aimed at reducing remittance costs and improving the efficiency and accessibility of the South Africa-Zimbabwe payment corridor. To reduce the high costs, it is essential to (i) reduce cash dependency by strengthening domestic payment systems and particularly the fast payment systems (FPS) available in both South Africa and Zimbabwe, and increasing interoperability across service providers and solutions (both at the domestic and cross border level) (ii) ensure a proper application of risk-based approach to AML/CFT measures in this remittance corridor in particular by promoting a shared understanding of ML/TF risks among all market participants, and (iii) drive further competition and innovation in the market by increasing the possibilities for ADLA to access to the faster payment systems.

To increase access to more efficient, faster and more transparent cross-border payments between South Africa and Zimbabwe, it is essential to offer convenient end user solutions at both sides of the corridor by (i) leveraging overlay services (such as aliases, quick response (QR) codes, and Request-to-Pay functionalities) for the existing retail payment systems (particularly to the domestic FPS like PayShap and Zipit), (ii) granting access to payment systems to ADLAs and considering the opportunity to allow the latter to offer e-wallets to their customers, and (iii) incentivizing end users to digitally spend the remittances received in accounts.

Transparency to end users can be further enhanced to encourage greater competition among market players and help reduce pricing for end-users, for example through the provision of price comparison databases.

Efficiency and speed in remittance processing can be significantly enhanced through the further development of the Transactions Cleared on an Immediate Basis (TCIB) payment scheme. To maximize its potential, it is essential to drive its uptake by (i) simplifying the onboarding process for participants and (ii) enabling ADLA to participate directly in the system. The possibility of adopting a hub-and-spoke model, where domestic systems facilitate participation in TCIB, is currently under investigation.

By implementing these strategies, the remittance process in the South Africa-Zimbabwe corridor can become more efficient, cost-effective, and inclusive, ultimately aligning with the G20's broader goals of enhancing cross-border payments and promoting global financial inclusion.

Recommendations

Thematic Recommendation	#	Recommendation ¹	Responsible Entity	Timeframe ²
1. Reduce cash dependency.	a	Enable non-bank entities to offer e-wallets and overlay services such as Request to Pay (RTP) services within the domestic payment ecosystem	SARB and RBZ	MT
	b	Develop an interoperable, low-cost, and secure acquiring infrastructure for domestic payments	SARB and RBZ	MT
	c	Review fast payments pricing in a way that encourages widespread adoption	SARB and RBZ, with the operators	MT
2. Ensure a proper application of risk-based approach to AML/CFT in the corridor.	a	Assess the ML/TF risks of the South Africa – Zimbabwe corridor, in particular for remittances from South Africa to Zimbabwe through an IMF/WB Safe Payment Corridor assessment, and communicate the findings to all market participants	Financial Intelligence Centre of South Africa, Financial Intelligence Unit of The Republic of Zimbabwe	ST
	b	Assess ML/TF risks of ADLAs, covering both inherent risks and controls, at the sectoral level and communicate the results to all market participants	SARB, RBZ	ST
	c	Informed by the shared understanding of ML/TF risks in the corridor, promote a proper application of a risk-based approach by reviewing regulatory framework to identify opportunities for additional simplified measures for lower risk remittance and clarifying supervisory expectations of the applicable AML/CFT measures	SARB, RBZ	ST
3. Grow transaction volume processed through formal channels.	a	Reduce barriers to entry for non-bank providers, e.g. via enabling risk-based access to payments infrastructure, or via enabling e-money providers to also become ADLAs	SARB, RBZ and both governments	MT
	b	Develop suitable financial products for migrants and their families	SARB and RBZ as catalysts along with private sector	MT
	c	Incentivize use of formal channels	SARB, RBZ, both governments, private sector	MT
	d	Consider a review of regulatory frameworks to simplify access to financial products for migrants,	SARB, RBZ and both governments	ST

¹ Please note that some of the recommendations in this column contribute to more than one thematic area. In such cases, they are repeated in the table. See, for example, recommendations 3a, 4d and 5a.

² ST – Short Term (within 1 year), MT – Medium term (within 1-2 years), LT – Long term (within 3-5 years)

Thematic Recommendation	#	Recommendation ¹	Responsible Entity	Timeframe ²
		proportionate to the documentation that these latter can provide		
4. Shift from informal to formal channels.	a	Develop suitable financial products	SARB and RBZ as catalysts along with private sector	MT
	b	Incentivize use of formal channels	SARB, RBZ and both governments, private sector	MT
	c	Develop and implement financial literacy programs	SARB, RBZ and both governments, private sector	MT
	d	Reduce barriers to entry for non-bank providers, e.g. via enabling risk-based access to payments infrastructure, or via enabling e-money providers to also become ADLAs	SARB, RBZ, TCIB	MT
5. Enhance payment infrastructure.	a	Reduce barriers to entry for non-bank providers, e.g. via enabling risk-based access to payments infrastructure, or via enabling e-money providers to also become ADLAs	SARB, RBZ, TCIB operator	MT
	b	Foster interoperability among domestic systems at the cross-border level, leveraging TCIB	SARB, RBZ, TCIB operator	MT
	c	Consider developing domestic and regional QR code standards	SARB, RBZ	MT
6. Legal and regulatory reforms.	a	Reassess the legal and regulatory framework to improve the efficiency and security of remittance flows in the South Africa-Zimbabwe corridor	SARB, RBZ, both governments	ST
	b	Develop and implement a plan for capacity building for the regulators to implement legal and regulatory reforms	SARB, RBZ	ST
7. Enhance financial inclusion.	a	Explore the development of digital ID systems to provide a secure and accessible way for individuals to verify their identities in accessing formal financial services	SARB, RBZ, FIUs in both countries, and both governments, private sector	LT
	b	Consider exploring digitization of KYC processes and building a regional KYC repository	SARB, RBZ, FIUs in both countries, and both governments, private sector	LT
	c	Develop and implement financial literacy programs	SARB, RBZ and both governments and private sector	MT
	d	Develop suitable financial products for migrants and their families	SARB and RBZ as catalysts along with private sector	MT
	e	Consider remittance beneficiaries as a specific target group in financial inclusion strategies	SARB, RBZ, both governments, private sector	MT

I. Introduction

1. **The G20's initiative to enhance cross-border payments aims for faster, cheaper, more transparent, and accessible services by 2027.**³ The Roadmap, developed with global input, identified key areas like payment system interoperability, legal frameworks, and data exchange as crucial for progress. Recent data highlights significant regional disparities, with global average costs for retail payments and remittances exceeding targets, particularly in sub-Saharan Africa where costs are highest.⁴ Ongoing work focuses on addressing these gaps, with the IMF and World Bank providing targeted technical assistance to help countries improve payment systems, financial inclusion, and digital infrastructure. Addressing these disparities is not only essential for achieving the G20's goals but also for ensuring that the benefits of enhanced cross-border payments are felt achieved globally, fostering economic growth and financial stability.

2. **The SARB requested a diagnostic mission to investigate the high costs and slow speed of sending remittances in one of its busiest payment corridors: the South Africa-Zimbabwe corridor.** Zimbabwe is a major recipient of remittances from South Africa, receiving nearly half of all remittances sent from South Africa within the SADC region (Figure 1). The market is mainly served by a few ADLAs. Overall, inward remittances accounted for 9.6 percent of the Zimbabwean GDP in 2023. While remittances constitute a significant portion of the Zimbabwean economy, the cost of sending remittances from South Africa to Zimbabwe has been quite high, averaging at 12.7 percent as of Q1 2024.⁵ In addition, most remittances are sent through informal channels, leading to even higher costs and lower financial inclusion. While the cost of sending remittances from South Africa to Zimbabwe is quite high compared to the G20 target, the average cost of sending from South Africa, regardless of the destination, is also high (Figure 2). The financial exclusion of undocumented Zimbabwean migrants and dependence on cash in this corridor drives the high cost of remittances. With an estimated 1.7 million Zimbabwean migrants living in South Africa, many lack the necessary documentation to access formal financial services, making them dependent on cash and informal remittance methods.⁶

³ FSB (2020a), CPMI (2020) and FSB (2020b).

⁴ FSB (2021) provides the details on the targets of the G20 Roadmap while FSB (2023b) provides the latest data on the indicators measuring the progress towards these targets,

⁵ Data on remittance flows is available via *KNOMAD*, World Bank (June 2024) and data on remittance costs is available via *Remittance Prices Worldwide*, World Bank (Q1 2024). A 5-percentage-point reduction in the cost of sending remittances to Zimbabwe can imply an estimated increase in the amount remitted by \$154 million.

⁶ Estimates by FinMark Trust. Multiple stakeholders the mission team met with noted that this is a conservative estimate. Although the lack of data does not allow for a more precise understanding of the scale of the problem, some ADLAs estimated this number to be close to 4m.

Figure 1. Remittances to Zimbabwe

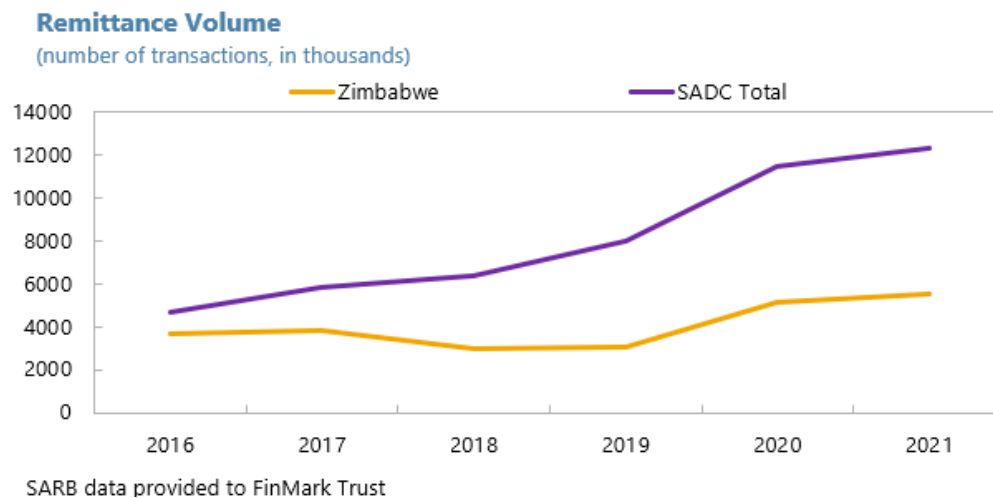
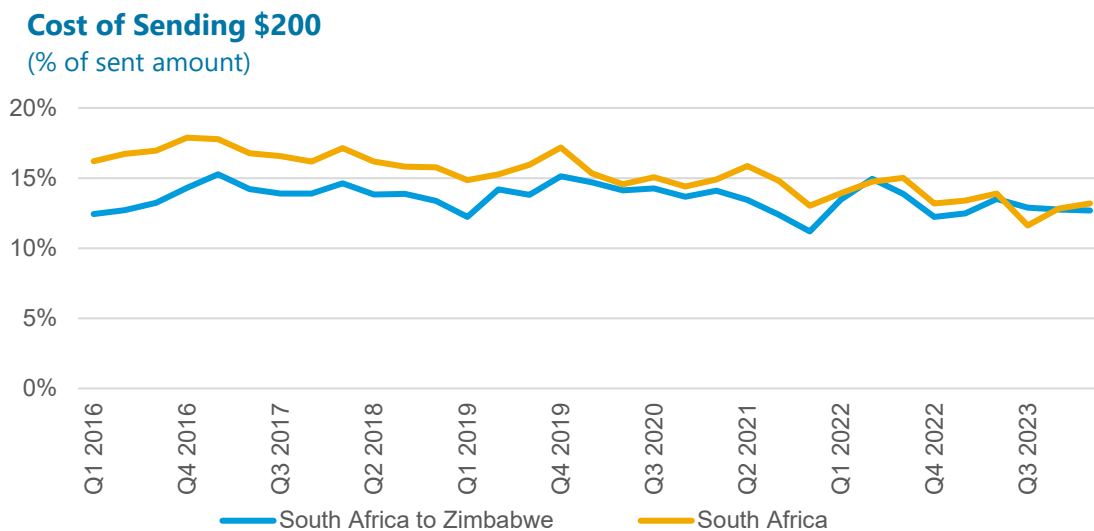


Figure 2. Remittance Costs



Source: Remittance Prices Worldwide, World Bank

3. **The Fund and the World Bank conducted a joint hybrid mission from August 5 to 13, 2024, in Pretoria, South Africa.** This mission aimed to evaluate the challenges driving high remittance costs and to lay the foundation for future broader missions across other critical corridors in the Southern African Development Community (SADC) region. The South Africa-Zimbabwe corridor, a vital channel for remittances and cross-border small- and medium-sized enterprise (SME) payments, faces significant challenges in terms of cost and efficiency. Meetings with key stakeholders, including banks, money transfer operators, fintech companies, payment system operators, and regulators from both South Africa and Zimbabwe, highlighted Zimbabwe's heavy reliance on USD cash. The dependency is due to a lack of

trust in the local currency, complicating the shift to digital payments. Regulatory and compliance demands, as well as limitations to accessing payment systems particularly for ADLAs, further increase operational costs and restrict the expansion of digital solutions. Discussions also focused on harmonizing regulations across the SADC region, improving financial inclusion, and addressing infrastructure gaps. Despite these challenges, the remittance sector is experiencing growth, bolstered by policy changes that facilitate easier access to funds for recipients.

4. **The mission's focus was on assessing the frictions that may cause higher costs, slower transaction speeds, limited access, and lack of transparency in the South Africa-Zimbabwe payment corridor.** By conducting interviews and meetings with stakeholders from both the public and private sectors in South Africa and Zimbabwe, the mission aimed to understand the current state and challenges of this payment corridor. The goal was to identify the pain points and determine which cross-border initiatives, aligned with the G20 Roadmap Priority Actions, would be most effective in addressing these issues in the immediate and near term. While the original focus of the mission was to cover both remittances and SME payments, most of the mission findings and recommendations lean towards remittances, as there was a lack of information on SME payments. Despite that, the mission noted the SME payments are primarily made through banks, with no product offerings available from the ADLAs.

II. Framework for the Diagnostic

5. **The diagnostic focuses on assessing the frictions that lead to higher cost, lower speed, lower transparency and lower access in a payment corridor, in alignment with the G20 Roadmap for Enhancing Cross-Border Payments.** The Roadmap covers wholesale payments, retail payments and remittances. The Roadmap also sets ambitious targets for cost, speed, transparency and access challenges. As part of the Roadmap work, FSB and CPMI, in collaboration with international organizations and standard setters, and the G20 central banks, developed guidance in several areas in identifying and reducing the frictions which impact cost, speed, transparency and access.⁷ The rest of this section provides the framework for the diagnostic conducted based on the guidance developed for the Roadmap, as well as the guidance that was already in place for some of these areas.⁸ The aim of this section is to provide the broad contours of the diagnostic framework used in this study, not to provide detailed descriptions, which can be found in the original documents referenced herein.

A. High Costs

6. **The high cost of cross-border payments depends on various frictions, which were explored in this diagnostic:**

- a. Limited competition in the market for cross-border payments, for example, due to significant entry barriers for intermediaries, can translate into an opportunity for incumbents to leverage their position to be price makers.
- b. The requirement to pre-funding, often across multiple currencies or to have efficient access to foreign currency markets lead to higher funding costs, which are reflected on the cost to end-users.
- c. In many instances, cross-border payments have long transaction chains because the development of direct connections required to transmit cross-border payments in multiple currencies is costly. Long transaction chains involve several intermediaries, adding to the costs.
- d. Complexities in meeting compliance requirements and certain foreign correspondent bank expectations, including for AML/CFT,⁹ regulatory exchange control, and data protection purposes, raise operational costs, leading to higher costs for end users.
- e. Competing domestic priorities and lack of international coordination creates frictions around compliance checks, weak competition, legacy technologies and data formats, hindering the efficiency of cross-border payments. In this regard, an insufficient degree of regulatory and supervisory harmonization limits competition and the scalability of investments in payments capability.

⁷ CPMI (2020), FSB (2021) and FSB (2023a)

⁸ This latter group of guidance includes, for example, CPMI and World Bank (2007) and CPMI and World Bank (2016).

⁹ This report presents a high-level analysis of the AML/CFT issues related to the South Africa-Zimbabwe payment corridor, which does not constitute an in-depth review of the AML/CFT framework of either country. Comprehensive assessments of the South African and Zimbabwean AML/CFT frameworks can be found at: <https://www.imf.org/-/media/Files/Publications/CR/2021/English/1ZAFEA2021001.ashx> and <https://www.fatf-gafi.org/content/dam/fatf-gafi/fsrb-mer/ESAAMLG-Mutual-Evaluation-Report%20of%20Zimbabwe-2016.pdf.coredownload.inline.pdf>.

B. Speed

7. **The slow speed of cross-border payments can be attributed to a number of frictions:**
- a. Limited operating hours of payment systems used for cross-border payments, as well as delays in clearing and settlement of cross-border payments, particularly in corridors with broad time zone differences, contribute to the slow speed of cross-border payments.
 - b. In many instances, cross-border payments rely on legacy technology platforms based on batch processing of transactions and characterized by limited or no real-time processing capabilities, leading to lower speed.
 - c. Cross-border payments do not usually use straight through processing and automated reconciliation, mainly due to fragmented and truncated data formats, affecting their speed.
 - d. Complexities in meeting compliance requirements, including for regulatory exchange control, and data protection purposes can increase the processing time of cross-border payments.
 - e. As it is generally costly to develop direct connections required to transmit cross-border payments in multiple currencies, the transaction chains are usually long, potentially leading to longer processing times.

C. Access

8. **Access to cross-border payment services by SMEs and individuals can present a challenge, especially for migrants and their families, and informal enterprises.** Financial inclusion has been an important item in the development agenda, and while there has been significant progress in the last decade in improving financial inclusion, this progress has not been uniform across all segments of the population. Financial inclusion among vulnerable groups, including migrants and their families, poor, women, micro, small and medium enterprises, individuals with low levels of education, and the unemployed, remains a challenge.

9. **The Roadmap refers to the existing guidance on financial inclusion, such as *Payment Aspects of Financial Inclusion (PAFI)*.**¹⁰ The PAFI framework includes seven general principles for improving financial inclusion from a payments perspective:

- a. Establishing coordination among relevant stakeholders (public and private)
- b. Ensuring the existence of a sound financial and ICT infrastructure
- c. Developing an enabling legal and regulatory environment
- d. Ensuring the availability of appropriately designed products
- e. Facilitating access network with broad coverage
- f. Improving digital and financial literacy
- g. Leveraging large-volume recurrent payment streams (e.g. remittances) for financial inclusion

¹⁰ CPMI and World Bank (2016).

D. Transparency

10. **Having full information about the cross-border payment services available in a given corridor is important for the end users to be able to make informed decisions.** Cross-border payment transactions involve fees as well as foreign exchange conversions. In addition, there is usually a lack of clarity on the time required to complete a transaction and when the funds will be available to the payee, due to delays in clearing and settlement of cross-border payments, especially in corridors with broad time zone differences. Moreover, there is an insufficient degree of harmonization in the legal and regulatory frameworks governing transparency in cross-border payments. The format in which information is disclosed and when it is disclosed, are not necessarily standardized, creating additional challenges in understanding and processing the available information. Hence, it is difficult for most end users (especially those in vulnerable groups) to properly understand and compare the characteristics of various options to send payments.
11. **In addition to regulatory measures on transparency and their proper enhancement, measures on consumer protection and financial literacy become critical in this regard.** Proper and timely disclosure of relevant information about service offerings, price comparison databases, financial education and awareness campaigns can complement and increase the effectiveness of transparency related regulations.

III. Status in South Africa–Zimbabwe Payment Corridor

12. **The mission's focus was on assessing the frictions that contribute to higher costs, slower transaction speeds, limited access, and lack of transparency in the South Africa-Zimbabwe payment corridor.** Through interviews and meetings with stakeholders from both the public and private sectors in South Africa and Zimbabwe, the mission sought to understand the current status and challenges of this payment corridor. The goal was to identify pain points and determine which cross-border initiatives, aligned with the G20 Roadmap Priority Actions, would be most effective in addressing these issues in the immediate and near term. It is important to note that some of these frictions have an impact on multiple challenges, while some can be specific to one particular challenge. In practice, it is not straightforward to categorize these frictions in mutually exclusive sets, with each set addressing a single challenge. Consequently, the observations in this report may be repeated when they are related to those frictions that affect multiple challenges.

A. High Costs

13. **According to the mission's observations, high costs observed in the South Africa-Zimbabwe payment corridor are due to several frictions:** heavy reliance on cash and associated operational costs, challenges to accessing banking services by the non-bank providers, weak competition, legal and regulatory requirements, compliance costs, including of compliance with AML/CFT and foreign exchange controls, lack of formal documentation by migrants leading to challenges in financial inclusion, and customer preferences toward cash.

14. **Operational costs are a significant challenge in the South Africa-Zimbabwe payment corridor, primarily due to the heavy reliance on cash, particularly in Zimbabwe.** This dependence on cash leads to substantial operational expenses, which are passed on to end-users, significantly contributing to the overall cost of remittance services. In Zimbabwe, cash-related expenses make up over 50 percent of the total cost structure for remittances, including costs associated with cash-in and cash-out processes, security, and transportation. The logistical complexities of managing and securing physical USD cash, driven by the deep distrust in the local currency, further intensify these costs, cover a broad range of activities, including flying cash between countries, delivering it to payout locations, implementing security measures like cash-in-transit (CIT) services, maintaining safes, and conducting audits. This reliance on USD cash not only increases operational burden but also underscores the challenges in transitioning to more efficient payment methods.

15. **While the remittance corridor between South Africa and Zimbabwe is perceived as lower ML/TF risk by regulators and supervisors of both countries, the South African banking sector seems to view ADLAs as a higher-risk customer class and Zimbabwe as a high-risk country.** While no corridor-specific ML/TF risk assessment has been conducted, there is general consensus among supervisors in both countries and ADLAs that remittances from migrant workers working in South Africa to Zimbabwe pose low ML/TF risk due to the small amounts being transacted. SARB recently conducted a sectoral risk assessment of ADLAs focused on inherent risks, the result of which will be communicated to the industry next year. While ADLAs (which provide a vast majority of remittance services to migrants) seem to share a similar understanding of ML/TF risk in the corridor and apply simplified CDD (Customer Due Diligence) to certain (e.g., small amount) transactions, South African banks in general view ADLAs as inherently risky customers (partly due to the simplified CDD applied by ADLAs, such as accepting

alternative forms of identification from their customers) and Zimbabwe as a high-risk country for ML/TF. Requirements and/or expectations of correspondent banks in the US and Europe add to South African banks' reluctance to serve ADLAs. For details refer Annex IV

16. **Challenges in access to banking services imposes significant cost burden on ADLAs in the South Africa-Zimbabwe payment corridor.** Many authorized dealers (ADs) are reluctant to provide banking services to ADLAs due to perceived high compliance risks (see above). This reluctance forces ADLAs to incur additional costs as they seek out alternative, often more expensive, financial arrangements to maintain their operations. The limited availability of banking services, particularly in rural areas, further escalates these costs, as ADLAs must invest in more complex and costly methods to facilitate transactions across a combination of proprietary and agent distribution networks. These increased operational costs directly contribute to the overall expense of providing remittance services in the corridor.

17. **The dominance of a few ADLAs in the market allows them to potentially charge higher fees, increasing costs for consumers.** With banks showing limited interest in this market, remittance costs continue to rise, driven by compliance requirements, onboarding expenses, and market dynamics, making money transfers more expensive.

18. **The South African's AML/CFT framework allows for a risk-based approach to customer due diligence (CDD).** The mission observed that South Africa's AML/CFT framework permits a risk-based approach to customer due diligence (CDD). However, banks often adopt stricter CDD measures and view themselves as more risk-averse. In contrast, ADLAs leverage the framework's flexibility to apply simplified CDD. This is partly explained by the fact that banks have historically shied away from offering one-off transactions and targeting certain customer groups, such as low-income migrants, and adopt a higher level of CDD that reflects their business model's focus on establishing longer-term relationships.

19. **While a cash-dominant remittance ecosystem is the main driver of high remittance costs¹¹, the legal and regulatory frameworks in this payment corridor have also considerably influenced the cost.**¹² The mission noted the reporting requirements under the foreign exchange control regulation and Immigration Act are burdensome and disproportionate to the average remittance values. ADs and ADLAs must inquire about the purpose of funds sent and report their findings to the authority (SARB), even for low-value remittances. For details refer Annex IV

20. **Migrants' access to formal financial services in the South Africa-Zimbabwe payment corridor is associated with high costs of customer identification and significantly constrained by the lack of formal documentation and financial institutions' immigration status reporting requirements.** The customer identification requirements often present substantial barriers for migrants, many of whom may lack the necessary documentation to meet the CDD standards implemented by financial institutions. The ADLAs that apply simplified CDD measures to some migrants need to conduct additional verification and ongoing monitoring to mitigate the associated ML/TF risks, which further drive up the operational expenses for financial institutions, making it difficult to offer affordable services to this demographic. The compliance burden is further exacerbated by the requirements under the Immigration Act 13 of 2002 of South Africa imposing a duty on financial institutions (including the ADs and ADLAs), to police immigration laws by requiring them to determine the citizenship or residence status of clients and report to the Department of Home Affairs, which deter undocumented migrants from using formal financial

¹¹ <https://documents1.worldbank.org/curated/en/255851482286959215/pdf/Retail-Payments-A-Practical-Guide-for-Measuring-Retail-Payment-Costs.pdf>

¹² World Bank's *Remittance Prices Worldwide* database and the Quarterly Reports show that digital remittances have consistently been cheaper on average than cash remittances. <https://remittanceprices.worldbank.org>

services. As a result, these migrants might be unable to access formal financial systems, including remittance services offered by banks and ADLAs.

21. **The substantial costs associated with onboarding and compliance activities significantly impact ADLAs in the South Africa to Zimbabwe remittance corridor.** For users without an account, ADLAs need to ensure the relevant documentation is received and verified. The cross-border nature of the transaction may require validation on both ends. These expenses, often passed on to end-users, are especially high when providing USD cash in Zimbabwe, where financial institutions charge premium fees due to the high demand for hard currency.

22. **Customer preferences in the South Africa to Zimbabwe remittance corridor are heavily skewed toward cash transactions.** Many customers prefer cash because they are paid in cash, lack bank accounts or mobile wallets, and do not see a need for these services. The process of opening a bank account is often costly, and income levels are generally low and inconsistent, making formal banking less accessible. Additionally, a significant number of Zimbabwean nationals in South Africa are undocumented or have expired work permits, further limiting their access to e-wallets and other digital financial services. This preference for cash, driven by practical and economic realities, perpetuates reliance on costly cash-based remittance methods. Introduction of new legal and regulatory regime has impacted the adoption of digital means of payment in the remittance space e.g. Intermediated Money Transfer Tax (IMTT)¹³ in Zimbabwe was introduced as an electronic transaction tax chargeable on financial transactions whenever the transfer of money is affected electronically. The introduction of the IMTT discourages domestic digital payments and reinforces the appeal of cash as consumers specifically in the remittance space.

B. Speed

23. **The speed of remittances in the South Africa to Zimbabwe corridor is significantly affected by the limited adoption of digital financial services.** The strong preference for cash in the South Africa-Zimbabwe payment corridor slows down transactions, even with near-real-time digital solutions available. This reliance on cash and the lack of digital uptake force senders and recipients to travel to physical cash-in and cash-out locations, adding delays and diminishing the speed of remittances. Moreover, the manual handling of cash further prolongs the process, reducing the overall efficiency of transfers in the corridor.

24. **The speed of transactions in the South Africa-Zimbabwe payment corridor is hindered by the slow adoption of TCIB, SADC's regional FPS.** The lack of adoption is largely due to a complex onboarding process of participants into the system and the requirement for ADLAs to obtain AD sponsorship under the current legal and regulatory regime (see Annex IV). These challenges add layers of complexity, making it difficult for financial institutions to integrate with the TCIB system quickly and effectively, ultimately limiting its potential to enhance transaction speed and efficiency in the corridor.

25. **TCIB offers the opportunity to further increase speed of remittances in the corridor.** It is therefore essential to drive the uptake of this system, by simplifying the onboarding process and requirements, and allowing ADLA to participate directly in the system. The possibility, currently under investigation, to adopt a hub and spoke model for TCIB, where participation is facilitated by domestic

¹³ The Intermediated Money Transfer Tax (IMTT) in Zimbabwe is a transaction tax applied to electronic and mobile money transfers. Initially introduced in 2018 to broaden the tax base, the IMTT was set at a rate of 2% on transactions exceeding a certain threshold, later revised to address fiscal needs. The tax applies to all forms of digital transfers, including bank transactions and mobile money payments, impacting both individual and corporate transactions.

systems (which will participate directly in TCIB under the new model), can play an important role to increase participation in, and usage of, the system. This is subject to ADLAs' direct participation in the domestic systems in the region.

C. Access

26. **The accessibility to remittance services in the South Africa-Zimbabwe payment corridor is significantly impacted by the limited presence of ADs (banks) in rural and remote areas, as well as townships.** The lack of wide availability of the traditional banking system has significantly constrained consumers to seek remittance services exclusively from ADLAs or, even worse, from the informal sector. The scarcity of service points makes it challenging for end users in these areas to access ADs' remittance services, often requiring them to travel long distances to urban centers. The lack of nearby service locations not only restricts access but also adds time and cost burdens for recipients, further complicating their ability to receive remittances efficiently.

27. **Access to digital payments in the South Africa-Zimbabwe payment corridor is constrained by an underdeveloped enabling environment at the domestic level, particularly outside of urban centers.** High costs of acquiring services, limited interoperability between payment systems, and the exclusion of ADLAs from direct participation in domestic payment systems create significant barriers. This is due to the current constraint in the legal and regulatory framework, where clearing and settlement of transactions in the national payment system by non-bank participants must be dependent on banks (sponsoring banks). These challenges restrict the accessibility of digital payment options, making it difficult for users to fully benefit from more efficient and modern payment methods. As a result, the potential for expanding access to financial services through digital means remains unfulfilled, leaving many reliant on less efficient and more costly alternatives.

28. **Access to formal financial services in Zimbabwe is significantly hindered by widespread distrust in the banking system and local currency.** Recipients often prefer to receive remittances in USD cash rather than through banks accounts, due to concerns over the stability and reliability of local currency. This reliance on cash is further exacerbated by the fact that many migrants lack the necessary formal documentation to open bank accounts, or fear being reported, which further restricts their access to formal financial services. This distrust and fear drive a preference for cash transactions, which remain the dominant method for remittances, limiting the uptake of more secure and efficient digital alternatives for remittances in the South Africa-Zimbabwe payment corridor.

D. Transparency

29. **Transparency regarding fees and exchange rates in the South Africa-Zimbabwe remittance corridor is generally observed.** High transparency levels are granted by market players, which generally provide upfront transparency regarding fees and foreign exchange rates, ensuring that end-users are aware of the costs involved in transactions. Nonetheless, there is still room for further enhancing this transparency to encourage greater competition among market players and help reduce pricing for end-users, for example, through the provision of price comparison databases. In addition, it is important to ensure that end-users are able to understand what is disclosed by the providers.

IV. Recommendations

A. Reduce Cash Dependency

30. **Driving the usage of the domestic digital payments ecosystem, particularly in Zimbabwe, is essential to reducing reliance on cash.** This can be achieved by promoting the use of low-value digital payments, making transactions more efficient and accessible, and driving a greater trust in the financial system and local currency. By enhancing the digital payment ecosystem, the overall reliance on cash can be diminished, paving the way for a more modern and cost-effective financial environment.
31. **Enabling non-bank entities to offer e-wallets and overlay services such as Request to Pay (RTP) services within the domestic payment ecosystem is essential for fostering competition and innovation.** Allowing more players into the market will widen the range of available payment options, making it easier and more cost-effective for customers to make and receive payments. This increased competition can spur innovation, leading to more efficient and user-friendly payment solutions, ultimately benefiting the domestic payment landscape by reducing costs and enhancing service quality.
32. **Building an interoperable, low-cost, and secure acquiring infrastructure is essential for enhancing the domestic payment ecosystem.** Developing solutions like QR code acceptance will facilitate low-cost transactions, making it easier for consumers and businesses to engage in digital payments. Ensuring that this infrastructure is interoperable across different solutions and providers will be key to its success, enabling seamless transactions and fostering a more inclusive and efficient payment environment.
33. **Participant and end-user pricing fees for low-value, fast payments must be carefully structured to encourage widespread adoption of digital payment methods.** By setting fees attractive to consumers and service providers, digital payments can be greatly increased. Ensuring that these transactions are cost-effective will drive greater participation in the digital payment ecosystem, making it more inclusive and efficient for all users. In this perspective, the implementation of incentives for the usage of digital payments for both consumers and businesses can play an important role in reducing the switching costs from cash.

B. Enable Proper Application of Risk-Based Approach to AML/CFT

34. **Promoting a clearer and shared understanding of ML/TF risks associated with remittances between South Africa and Zimbabwe based on a robust risk-assessment, will facilitate a proper application of a risk-based approach including simplified CDD when the risk levels are low.** While a specific ML/TF risk assessment of the South Africa-Zimbabwe corridor would be most relevant, a sound and inclusive sectoral risk assessment of ADLAs that covers both inherent risks in the sector and their quality of controls and that is clearly communicated to all market participants (including ADLAs as well as other financial institutions that interact with the sector, such as banks) will help promote a clear and shared understanding of the ML/TF risks associated with the payment corridor. The risk-assessment can also inform authorities' further efforts to promote a risk-based approach, including to review the regulatory framework to identify opportunities for allowing additional simplified measures when the risks are proven low, clarify supervisory expectations of banks and ADLAs in terms of using proportionate AML/CFT measures including CDD in the context of specific product offerings, and guide efforts to mitigate correspondent banking pressures while facilitating ADLAs' access to banking services. Reduced reliance on cash (see above) may also help reshape the risk perception of some market participants. Taken

together, these steps will enable a proper application of the risk-based approach, making it easier and more cost-effective for service providers to offer products accessible by a broader customer base, while still safeguarding financial integrity.

C. Grow Transaction Volume

35. **Increasing the volume of transactions processed through formal channels is essential for reducing overall remittance costs.** Achieving this goal partly depends on policies outside the financial sector, such as those concerning undocumented migrants. Within the financial sector, several steps can be taken: improving competition, encouraging non-bank providers by enabling risk-based access to payments infrastructure, and developing suitable financial products for migrants and their families. Incentivizing the use of these products can help improve flows through formal channels, achieve scale, and ultimately reduce costs.

36. **Although current estimates suggest there are 1.7 million Zimbabwean nationals in South Africa, Money Transfer Operators (MTOs) believe the number is significantly higher,** with anecdotal evidence suggesting at least twice as many Zimbabwean migrants. By encouraging more individuals to use formal remittance channels, the increased transaction volume can create economies of scale, thereby lowering costs and making formal services more competitive and accessible.

37. **Considering a review of regulatory frameworks governing immigration to simplify access to financial products by migrants can facilitate greater financial inclusion.** By revisiting these regulations, more individuals could gain access to formal financial services, thereby increasing the volume of transactions processed through formal channels. For example, currently, migrants in South Africa are required to have work permits to access financial products. A simplification of these documentation requirements, in line with FATF recommendations, can not only promote financial inclusion but also contribute to reducing overall remittance costs via increasing the volume of formal remittance transactions.

D. Shift from Informal to Formal Channels

38. **Enabling a transition from informal remittances to formal digital channels is essential for enhancing the remittance market.** Currently, over 50 percent of the market operates through informal channels. From a demand-side perspective, creating incentives, developing more suitable financial products, and improving financial inclusion and literacy can contribute to this shift, while on the supply side, reducing barriers to entry for providers (e.g. enabling risk-based access to payments infrastructure) can significantly increase the use of formal financial services via improving the convenience and the user experience for digital channels in general, and shift the remittance flows from informal to formal in particular. This shift would not only reduce overall costs but also improve transparency and security in the remittance process.

E. Enhance Payment Infrastructure

39. **Enhancing the payment system infrastructure is crucial for promoting a more open, inclusive and efficient financial environment.** Promoting a level playing field and assessing the possibility of opening participation in payment systems for ADLAs can facilitate broader access and competition. Regulatory steps to remove the current barriers to access the payment system by the ADLAs i.e. requirement to partnering with banks, is underway but can be accelerated (see Annex IV). Additionally, fostering interoperability among domestic payment systems at the cross-border level,

leveraging platforms like TCIB, will enhance the efficiency and reach of payment services. The further development of TCIB, and particularly an update of its onboarding and participation frameworks, can play an important role to drive further speed and efficiency of cross-border remittances in the corridor and more broadly in the region. Developing domestic and regional QR code standards is another key step to drive the uptake of digital payments, ensuring that the infrastructure supports seamless, low-cost transactions across borders.

F. Review Legal and Regulatory Framework

40. **Reassessing the legal and regulatory framework is essential for improving the efficiency and security of remittance flows in the South Africa-Zimbabwe corridor.** Collaborating with the market on solutions to allow ADLAs to access USD liquidity through Authorized Dealers (ADs) in Zimbabwe is crucial for maintaining liquidity and facilitating smoother transactions. Furthermore, intensifying inter-agency collaborations to harmonize regulatory acts, such as the IMTT and immigration law, will be key to enhancing the regulatory environment and supporting more effective remittance flows. An enabling legal and regulatory framework is essential to provide competitive market conditions and create a level playing field for all participants. Relevant authorities need to reassess the legal and regulatory framework to ensure fair access to payment system and reduce barriers to adoption of digital means of payment. To this end, the mission noted regulatory interventions by authorities, however, these can be accelerated and coordinated (See Annex IV).

G. Enhance Financial Inclusion

41. **Enhancing financial inclusion is vital for broadening access to formal financial services in the South Africa-Zimbabwe corridor.** Exploring the development of digital identity systems could provide a secure and accessible way for individuals to verify their identities, facilitating easier access to financial products. Additionally, the opportunity to digitize CDD processes and build a regional KYC repository would streamline compliance and reduce barriers to entry for consumers. Initiatives aimed at increasing financial literacy and rebuilding trust in the local currency and banking sector, particularly in Zimbabwe and also for the Zimbabwean migrants' trust in the Zimbabwean financial sector, are also essential for encouraging the adoption of formal financial services and promoting overall financial inclusion. In this regard, the authorities can consider targeting remittance beneficiaries as a specific segment in financial inclusion strategies.

V. Next Steps

42. **Addressing the high costs in the South Africa-Zimbabwe remittance corridor requires a multi-faceted approach and inter agency coordination** which reduces dependency on cash, enables low-risk and low-cost cross-border products, grows transaction volumes, and shifts remittance flows from informal to formal channels. By implementing these strategies, the remittance process can become more efficient, cost-effective, and inclusive, ultimately benefiting both senders and recipients in the SA-ZIM corridor.

43. **While this diagnostic helped uncover several significant frictions in the South Africa-Zimbabwe corridor which may present a good learning for other corridors, each corridor in the region is expected to have its own peculiarities.** Hence, not all the lessons, conclusions and recommendations in this report will apply for other corridors, and a careful examination of corridor-specific conditions is recommended if work is to continue in other corridors. This mission evaluated the challenges driving high remittance costs and to lay the foundation for future broader missions across this and other critical corridors in the Southern African Development Community (SADC) region.

44. **To inform harmonized region-wide efforts, it is important to repeat the same exercise in the other corridors in the region.** This can help derive recommendations to harmonize legal, regulatory and supervisory practices across the region.

45. **While this report focused on a diagnostic framework for cross-border payments as described in Section 2, it is recommended that this report be read in combination with a more detailed analysis of payment aspects of financial inclusion along with additional reviews of the existing frameworks and practices for fostering financial integrity.**¹⁴ A financial inclusion review from a payments perspective will add further nuances on improving financial inclusion of individuals and SMEs on both ends of the corridor, leading to improvements in competition, product design, financial literacy, and expanding access networks. Such a diagnostic was already included in the SADC CCBG Payment System Subcommittee's 2023–2026 Strategy, as well as fostering financial integrity and other related reforms.

46. **The IMF, the World Bank and the SADC CCBG Payment System Subcommittee Secretariat have agreed to a multi-year program of technical assistance by the IMF and the World Bank to SADC countries on improving cross-border payments in SADC.** Implementation of the relevant reforms for faster and more efficient, transparent and accessible cross-border payments need coordinated efforts. The IMF and the World Bank stand ready to provide technical assistance along the way. While the details of the technical assistance program are being prepared, the initial phase of the program will focus on the countries within the CMA region, and the next phase will focus on an additional 2-4 countries from SADC. Several areas will be covered by the program, including reforms in AML/CFT, TCIB and domestic fast payment systems, incentivizing and improving usage of digital payments among others.

¹⁴ For example, other published and unpublished work on financial inclusion related assessments by the FinMark Trust, IMF, SADC and the World Bank, as well as by the authorities themselves. These could include National Financial Inclusion Strategies along with the diagnostic documents written for background analysis. In addition, there are mutual evaluation reports published by the ESAAMLG.

Annex I. G20 Roadmap for Enhancing Cross-Border Payments

1. The G20 has made enhancing cross-border payments a priority in the last few years.

Faster, cheaper, more transparent and more inclusive cross-border payment services, while maintaining their safety and security, would have widespread benefits for citizens and economies worldwide, supporting economic growth, international trade, global development, and financial inclusion.

2. The Financial Stability Board (FSB) published the G20 [Roadmap](#) for Enhancing Cross-Border Payments in October 2020, which was developed with the inputs by the standard setting bodies, financial sector regulators, international financial institutions, and the private sector, with a horizon of 2027. Since then, the FSB and the Committee for Payments and Market Infrastructures (CPMI) have been leading several task teams to deliver on the Roadmap implementation plan, including the World Bank as one of the implementing institutions. The initial phase of work focused on establishing the foundational elements of the Roadmap, developing various reports to provide guidance, specific proposals and best practices across the building blocks of the Roadmap. This phase benefited from extensive collaboration across standard setting bodies, central banks, international financial institutions and the private sector through surveys, consultations, bilateral discussions, expert groups and other fora.

3. The first set of data published by the FSB in October 2023 its inaugural report on the key performance indicators show that there is substantial variation across regions in terms of the progress towards the Roadmap targets.¹⁵ Key highlights include:

- The speed of cross-border payments, across all market segments (wholesale, retail and remittances) falls behind the targets.
- The global average cost of retail payments exceeds the target of 1 percent (of the transfer amount) across all use cases, and ranges from 1.5 percent for business-to-business (B2B) payments to 2.5 percent for person-to-person (P2P) payments, with significant variation across countries. For example, it costs 7 percent on average in sub-Saharan Africa to send a cross-border person-to-business (P2B) payment, compared to 1.6 percent in North America.
- The global average cost of remittances (6.3 percent) is more than double the target (3 percent).
- There are significant differences in access to a transaction account by individuals and SMEs to send and receive cross-border electronic payments.

4. After more than two years of implementation of the Roadmap, the FSB published a report on the priority actions to meet the quantitative targets of the Roadmap, with inputs from the CPMI and the implementing institutions. This report identified three interconnected themes for orienting and focusing the second phase of the Roadmap:

- Payment system interoperability and extension: including FPS interlinking across borders, extension of operating hours of payment systems, cross-border payment service level agreements/schemes, and central bank operators' community of practice.
- Legal, regulatory and supervisory frameworks: including improving consistency of bank/non-bank regulation and supervision, enhancing information to end users, and updating the application of AML/CFT rules.

¹⁵ FSB (2023b)

- Cross-border data exchange and message standards: including enhancing the interaction between data frameworks and cross-border payments, finalizing ISO 20022 harmonization requirements, improving API harmonization and exploring enhanced use of legal entity identifier in cross-border payments.

5. **In addition, the second phase of the Roadmap includes several cross-cutting actions,** including an annual Payments Summit, several industry task forces to cover the priority themes, monitoring and progress reporting, public sector outreach, and technical assistance (TA) by the IMF and the World Bank to help take forward the priority themes.

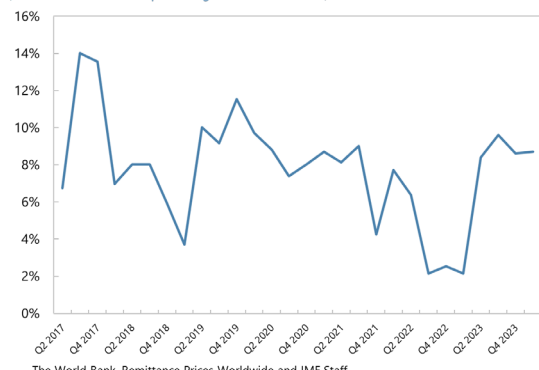
6. **As part of the Roadmap’s implementation plan, the IMF and the World Bank published a report in December 2023 to outline their approach to technical assistance to help countries take forward the priority themes.**¹⁶ The World Bank is uniquely positioned to provide a combination of TA and financing as relevant to developing countries, using a holistic approach, including financial sector reforms (e.g., domestic and regional payment systems, financial inclusion, and financial education) as well as non-financial sector ones (e.g., digital ID, digital economy, and digitalization). As part of its cross-border payments TA approach, the World Bank will scale up support on fast payments, including support on interlinking in coordination with multilateral efforts.

¹⁶ IMF and World Bank (2023).

Annex II. An Overview of the Data on the South Africa-Zimbabwe Corridor

Cost of Sending Remittances from SA to Zimbabwe

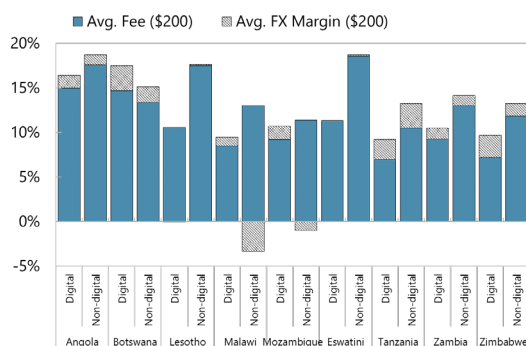
(Cost to send \$200 as a percentage of the remittance)



Source: World Bank, Remittance Prices Worldwide, Q1 2024.

Cost of Remittances from South Africa to SADC by Payment Type

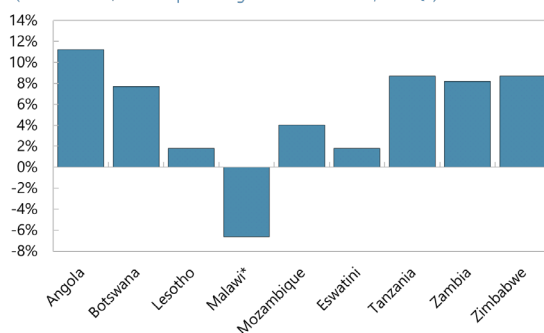
(Cost of sending \$200, as a percent of the remittance, 2024Q1)



Source: World Bank, Remittance Prices Worldwide, Q1 2024.

Cost of Sending Remittances from South Africa to SADC

(Cost to send \$200 as a percentage of the remittance, 2024Q1)

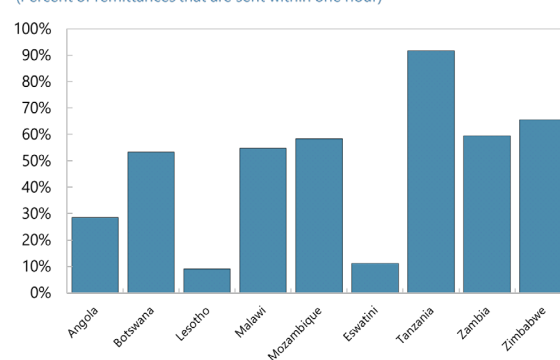


Note: Remittance Prices Worldwide, Q1 2024. The figure plots "SmaRT" corridor averages. The negative cost in South Africa–Malawi corridor is due to the FX margin at the time of data collection by a few specific providers. For details on SmaRT, please see World Bank (2016)

https://remittanceprices.worldbank.org/sites/default/files/smart_methodology.pdf

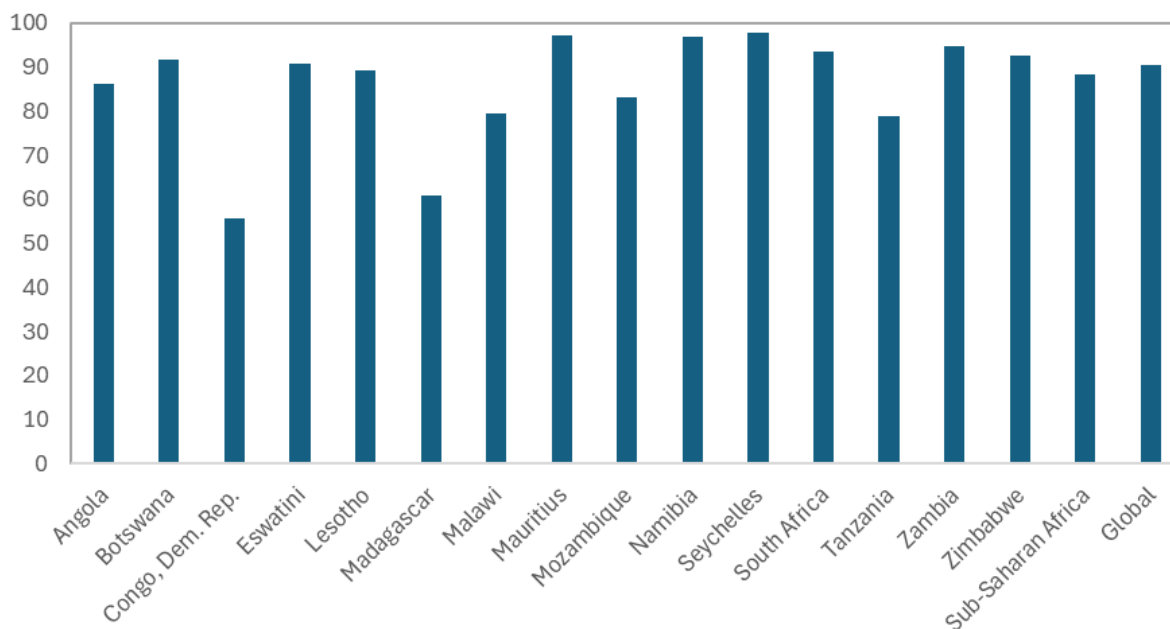
Speed of Remittances from South Africa to SADC

(Percent of remittances that are sent within one hour)



Source: World Bank, Remittance Prices Worldwide, Q1 2024.

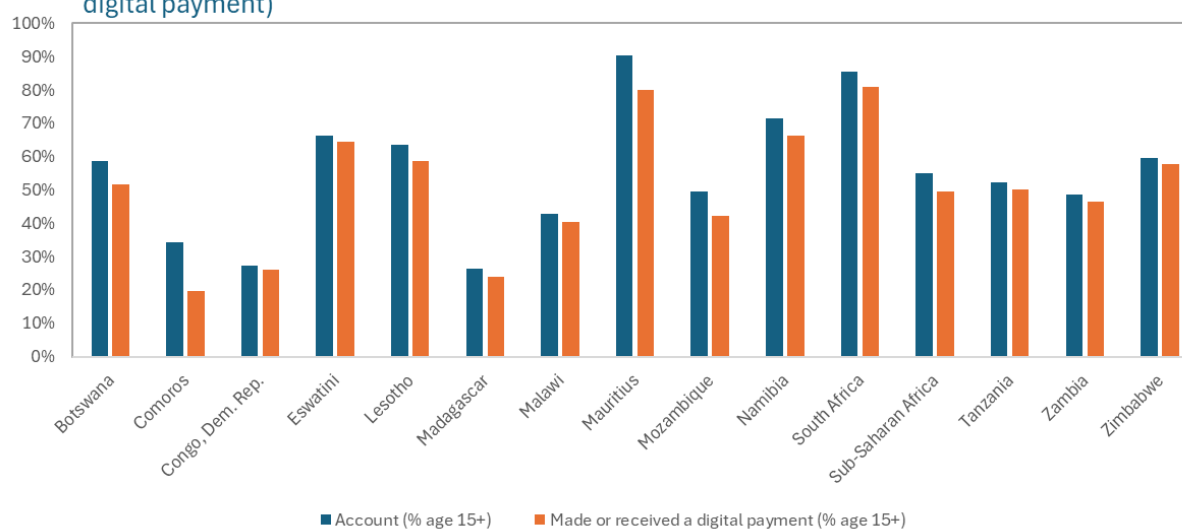
Percent of firms with a checking or savings account



Source: World Bank, Enterprise Surveys, latest available data

Accessing and using accounts

(Percent of adults with an account and percent of adults making and receiving a digital payment)



Source: World Bank, Global Findex

Annex III. Overview of Cross-Border Payment Services in South Africa

SARB's Financial Surveillance Department is responsible for the daily administration of exchange controls in South Africa. With this responsibility, SARB can appoint certain registered banks to act as Authorized Dealers (ADs) in foreign exchange and appoint certain other registered financial service providers as Authorized Dealers in foreign exchange with limited authority (ADLAs). ADs and ADLAs can thus have the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by SARB.

The current Exchange Control Regulations dates from 1961 and have been amended over time. A new framework of capital flow management framework is planned to be introduced in the near future, which will allow for all cross-border transactions except those that are subject to the capital flow management measures and/or pose a high risk of illegitimate cross-border financial flows.

SARB Financial Surveillance Department has "Currency and Exchanges Manuals" for ADs and ADLAs,¹⁷ which includes the permissions and conditions that apply to transactions in foreign exchange that ADs and ADLAs can undertake on behalf of their clients in terms of the Exchange Control Regulations. In addition, the manuals include details of related administrative responsibilities, reporting requirements, and relevant requirements on AML/CFT for ADLAs.

As of November 2024, there are 24 licensed ADs. ADs are authorized by the SARB Financial Surveillance Department to deal in gold and foreign exchange. ADs facilitate major foreign exchange activities, including trade finance, cross-border payments, and foreign currency accounts, often for high-value transactions. All 24 licensed ADs are banks. In addition, there are 4 licensed restricted ADs. These are ADs which are licensed to deal in foreign exchange utilizing a locally issued card for permissible cross border transactions. All 4 restricted ADs are banks.

ADLAs have four sub-categories:

1. Category 1: can perform travel related transactions only.
2. Category 2: can perform travel related transactions and certain additional transactions of up to Rand1 million per user within a calendar year. Category 2 ADLAs are mostly smaller bureau de change operators. They may offer remittance services in partnership with external money transfer operators (e.g. Western Union or MoneyGram, etc.)
3. Category 3: are mostly independent money transfer operators or value transfer service providers which can facilitate transactions of up to R5,000 per transaction per day with a limit of Rand 25,000 per user in a calendar month.
4. Category 4: can perform a combination of services offered by Category 2 and Category 3 ADLAs.

Category 2 ADLAs include exchange offices (e.g. Sikhona Forex/Ria) and also providers like Mukuru. Money transfer operators (MTOs) are licensed as Category 3 ADLAs (e.g. Shoprite, WorldRemit).

¹⁷ SARB Currency and Exchanges Manual for Authorized Dealers (2024) <https://www.resbank.co.za/content/dam/sarb/what-we-do/financial-surveillance/financial-surveillance-documents/2020/Currency%20and%20Exchanges%20Manual%20for%20Authorised%20Dealers.pdf> and SARB Currency and Exchanges Manual for Authorized Dealers in foreign exchange with limited authority (2024) <https://www.resbank.co.za/content/dam/sarb/what-we-do/financial-surveillance/financial-surveillance-documents/2020/Currency%20and%20Exchanges%20Manual%20for%20ADLAs.pdf>.

Category 4 ADLAs are mostly fintechs (e.g. Hello Paisa, Mama Money). As of November 2024, there are 12 licensed Category 2 ADLAs, 12 licensed Category 3 ADLAs, and 3 licensed Category 4 ADLAs.

All MTOs operating in South Africa must hold an ADLA license, but ADLAs can provide a broader range of foreign exchange services, including currency exchange and remittances, while MTOs are focused solely on remittances.

Annex IV. Legal Assessment

1. **The legal and regulatory framework for remittances in South Africa is fragmented into domestic and cross-border remittances**¹⁸. As to the former, the mission noted from the authorities that the activity of domestic remittances is deemed a deposit-taking activity as it involves the pooling of funds from the public¹⁹, which element falls within the realm of the Banks Act 94 of 1990 (Banks Act 1990) under the jurisdictions of the Prudential Authority (PA).²⁰ This requires the domestic money transfer operators (MTOs) to partner with registered banks to be able to provide such services. As for cross-border remittance service providers they are subject to the Currency and Exchanges Act, 1933 (Act No. 9 of 1933) (CEA) and the Exchange Control Regulations (Regulations) promulgated thereunder. Exchange Control Regulations is a function of the National Treasury (NT) under which the NT has delegated certain powers and functions to the SARB. Amongst others are the power to appoint registered banks to act as Authorized Dealers in foreign exchange (ADs) and Authorized Dealers in foreign exchange with limited authority (ADLAs) that eventually grant them the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the Financial Surveillance Department of SARB²¹. ADLAs are classified into four categories with differentiated conditions as to the types and limits on the transactions²².

2. **Apart from licensing requirements, remittance service providers are subjected to conduct regulation, exchange control, and AML/CFT compliances entrusted with different authorities.** Under the Twin Peaks model of financial sector regulatory reform, two new authorities were established in 2018 notably the PA and the Financial Sector Conduct Authority (FSCA). The FSCA established under the FSR Act (Section 56), regulates market conduct of financial institutions when offering financial products and services in South Africa including remittance service providers and payment service providers. With respect to the latter, the FSCA is required to seek concurrence of the SARB when issuing conduct standards relating to payment service providers²³. The FSCA informed the mission that, despite having a broad mandate to set transparency and pricing requirements for remittance service providers, no such requirements are currently in place. The FSCA noted that market forces and competition currently determine the cost of funds for the ADLAs. The Financial Intelligence Centre Act No. 38 of 2001 (FICA) lays out the main AML/CFT obligations of accountable institutions including banks and ADLAs and, as amended in 2017 introduces a risk-based approach to CDD. SARB is responsible for overseeing

¹⁸ While there is no statutory definition of “domestic remittances” and “cross border remittances” under SARB’s regulatory regime, these terms are used in the context to refer to (i) domestic remittances refers to person-to-person payments of relatively low value between sender and recipient located within the borders of South Africa and Zimbabwe respectively, whereas (ii) cross-border remittance refers to person-to-person payments of relatively low value between sender in South Africa to recipient in Zimbabwe.

¹⁹ “Deposit” under the Banks Act 1990 (section 1(1)) is broadly defined to include an amount of money paid by one person to another person where an equal amount or part thereof will be conditionally or unconditionally repaid with or without interest, and excluded certain types of amount of money paid from this definition e.g. premium paid to registered insurer and payment paid by close relative, director or executive officer.

²⁰ Prudential Authority established under the Financial Sector Regulation Act 9 of 2017 (FSR Act) (section 32) as a juristic person operating within the administration of the SARB, is entrusted to, among others, promote and enhance the safety and soundness of financial institutions and market infrastructures.

²¹ The Financial Surveillance Department of SARB as designated supervisory body is, in terms of section 45 of the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) (the FIC Act), responsible for supervising and enforcing compliance with the FICA or any order, determination or directive made in terms of the FIC Act by all (ADLAs) regulated or supervised by it.

²² Refer to SARB Currency and Exchanges Manual for Authorised Dealers in foreign exchange with limited authority, 5 August 2024.

²³ FSR Act, section 109(1).

compliance of banks and ADLAs with the FICA.²⁴ The SARB oversees the national payment system's safety and soundness under the South African Reserve Bank Act 90 of 1989 (Section 10(c)) and the National Payment System Act 78 of 1998 (NPS Act 1998). The current regulatory framework restricts the provision of payment services involving the pooling of funds such as mobile money, e-money and remittances only by banks or partnering with banks. Non-banks that wish to provide these payment services are required to partner with banks in terms of the Banks Act 1990 and must be designated for participation in clearing and bank-sponsored in settlement in accordance with the NPS Act. Furthermore, only a bank or a designated settlement system operator has access to the SARB settlement account and liquidity. ADLAs which operate in a close-loop environment is outside of the scope of the national payment system.

3. **While a cash-dominant remittance ecosystem (cash-in and cash-out) in the South Africa and Zimbabwe is the main driver of high remittance costs, the legal and regulatory frameworks in this payment corridor have also considerably influenced the cost, availability, and accessibility of remittance services.** The mission noted the foreign exchange reporting requirements are burdensome and disproportionate to the average remittance values. ADs and ADLAs must inquire about the purpose of funds sent and report their findings to the SARB, even for low-value remittances. Authorities expect them to verify the sender's identity, residence, and income source, which is challenging for those migrants who lack proper documentation. Despite the above, the compliance burden is further exacerbated by the requirements under the South Africa's Immigration Act 13 of 2002 (as amended by Act 9 of 2004) (section 45) administered by the Department of Home Affairs. The requirements under this Act place a duty on financial institutions (including the ADs and ADLAs), to police immigration laws by requiring them to determine the citizenship or residence status of clients and report to the Department of Home Affairs. It is also submitted that by interlinking the provision of financial services with the policing of immigration laws, acts as a hindrance to the formalization of remittances from South Africa.

4. **Competitive market conditions are essential for reducing the costs and improving the quality of remittance services.** A competitive market limits monopolies, removes exclusivity, and ensures fair access to market and payment systems for all providers. The mission was informed that the SARB is collaborating with the PA to allow non-banks to offer mobile wallet services without needing a bank's sponsorship. This should enable non-bank money transfer operators (MTOs) to operate independently from banks and allow for fair, non-discriminatory entry into the South African's National Payment System (NPS), with improved efficiencies and increased competition. This will create level playing field in terms of regulatory requirements. Offering of mobile wallets by MTOs may transform the remittance landscape, offering convenience, cost-effectiveness, and inclusivity to a wider society. To this aim, SARB has proposed an exemption under the Banks Act 1990 to allow the MTOs to operate independently. Furthermore, the mission noted from the Review of the National Payment System Act 78 of 1998 (page 23) that there are ongoing discussions between SARB and the PA which focused on the regulatory framework for domestic remittances.

5. **The initiatives by SARB in the reform of the current payment services landscape to remove the barriers to access the National Payment System by non-bank participants, are welcome but could be accelerated.** Limited access to payment systems for non-bank money transfer operators (MTOs) adds inefficiencies to remittance services. In terms of Section 7 of the NPS Act 1998, these remittances services (payment services) cannot fall within the ambit of payments to third parties as the moneys accepted are *not considered 'due' to the beneficiary*. Payment services where money is "not due" are excluded from the NPS Act 1998 and participants wishing to provide other payment services

²⁴ More detail can be found in: [South Africa: Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism](#) and South Africa's November 2023 progress in strengthening measures to tackle money laundering and terrorist financing

involving pooling of funds are required to partner with banks. Furthermore, clearing and settlement of transactions in the national payment system by non-bank participants are dependent on banks (sponsoring banks). Currently, ADLAs offer cross border remittances services via its close-loop solutions and not participating in any domestic payment systems. To address these constraints, SARB has explored amending the NPS Act 1998 to introduce the concept of “funds” without the element of it being due to a beneficiary. It is also noted from the draft amendment bill that the SARB will be empowered to regulate closed-loop payment system and payment activities under the ambit of the NPS Act 1998. At the time of the mission, the SARB informed that this draft Amendment Act (part of the Conduct of Financial Institution Bill (COFI) is currently under review by the Office of the Chief State Law Adviser. It is recommended that all authorities must act swiftly to establish and implement an appropriate legal and regulatory framework for ensuring a level playing field and boosting competition which may inadvertently lead to lowering the cost of remittances.

6. The legal and regulatory framework for remittances in Zimbabwe on the other hand, as the receiving jurisdiction in this payment corridor, is concentrated with the Reserve Bank of Zimbabwe (RBZ). The RBZ oversees remittance services through the Exchange Control Regulations, which govern the flow of foreign currency in and out of the country. Authorized Dealers with Limited Authority (ADLAs) are licensed by the RBZ through various statutory instruments²⁵ to provide remittance services. The RBZ issues operational guidelines for ADLAs, detailing the requirements for licensing, registration, and compliance. The mission was not informed of any known regulatory barriers to foreign exchange entering the market in Zimbabwe and there is no limit imposed on inflows for cross border remittances. The Anti-money laundering framework in Zimbabwe is established through the Money Laundering and Proceeds of Crime Act -Chapter 9:24, which is an act to suppress the abuse of the financial system and enable the unlawful proceeds of all serious crime and terrorist acts to be identified, traced, frozen, seized and eventually confiscated. This is overseen by the Financial Intelligence Unit of the RBZ.

7. The National Payment Systems Act Chapter 24:23 (NPS Act) outlines the framework for the regulation and oversight of payment systems in Zimbabwe. Under the NPS Act, the RBZ is entrusted to formulate and implement policies to promote the establishment, regulation and oversight of safe, sound and efficient payment, clearing and settlement systems. The NPS Act limits direct participation in the NPS to banks, who are the only type of financial institution currently defined in the legal framework that can undertake “money transmission services.”²⁶ Therefore, all participation in the NPS to conduct retail payment services must involve a licensed bank. In 2017, the RBZ developed Retail Payment Systems and Instruments guidelines to provide a framework that supports the development of retail payment systems and retail payment instruments in Zimbabwe.

8. Regulatory interventions in Zimbabwe have promoted digitalization of the last mile for receiving remittances, however, a new tax regime has complicated these efforts. Zimbabwe has faced high inflation for past decades and cash shortages in both Zimbabwean and US dollars. As seen in section 3, the cash-dominant nature of Zimbabwe has resulted in high remittance costs. Intermediated Money Transfer Tax (IMTT), an electronic transaction tax, is a direct tax chargeable on whenever a financial institution mediates the transfer of money except through check. It includes US Dollar nostro accounts as well as the transfer of money from mobile money transfer agents to recipients and thereby will be incurred by all cross-border fast payment systems that terminate in a bank account or mobile money wallet (KPMG 2022). The introduction of the IMTT increases remittances transaction cost to the

²⁵ Pursuant to Exchange Control Statutory Instrument 109 of 1996 (section 35(1)) as read with Exchange Control (Authorized Dealers with Limited Authority) Order, Statutory Instrument 104 of 2015 and Exchange Control Statutory Instrument 122A of 2017.

²⁶ Banking Act section 7(1)(d)). It is noted (section 3) that the RBZ may only recognize a payment system that its participants are financial institutions i.e. banking institutions or entities carrying out banking business and the RBZ.

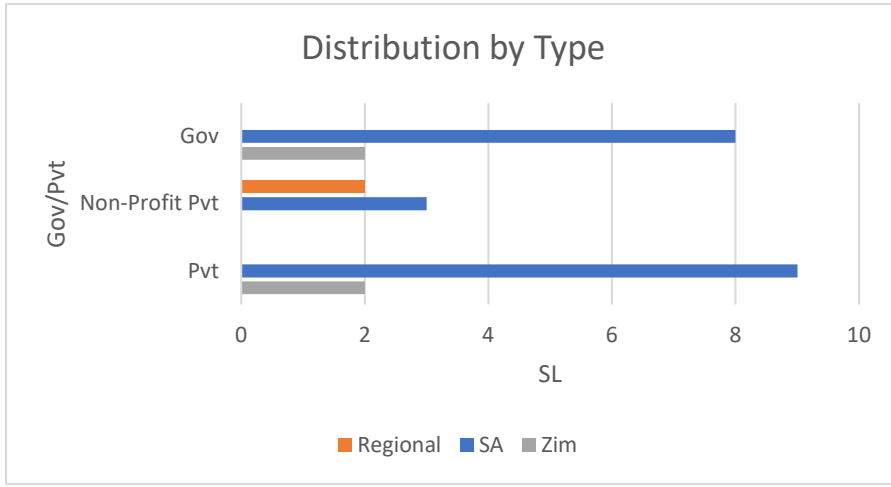
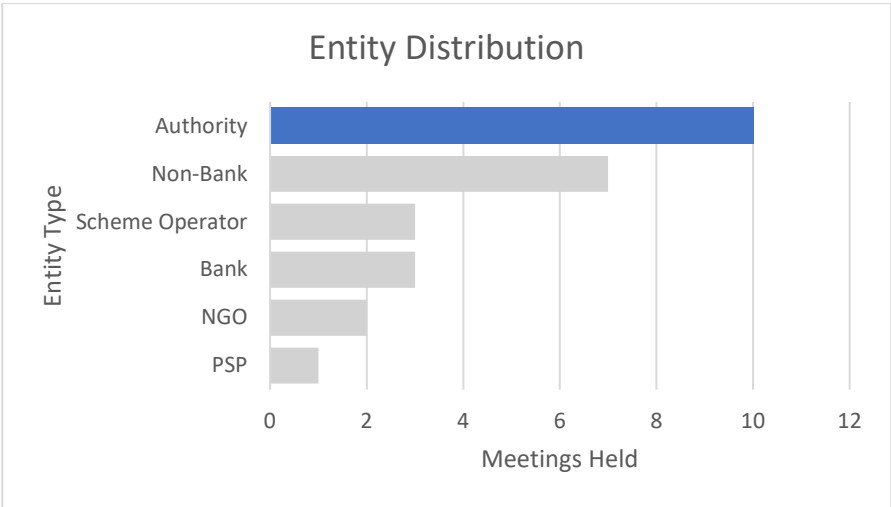
consumers and therefore, discourages domestic digital payments and reinforces the appeal of cash. While recent amendments to the Income Tax Law on the IMTT provides for specific exemptions relating to money transfers for the purchase or sale of marketable securities, and for the purchase or redemption of money market instruments as well as a capped fee for transactions exceeding USD 500,000 it is still one of the main reasons cited by stakeholders on the high costs associated with e-payments. In its October 2023 Monetary Policy Statement, the RBZ has urged for the Government to consider removing the IMTT on transactions that are intermediated through plastic cards and other digital platforms to support a cashless society.

9. **As developments in other regulatory regimes impact the cost of remittances, it is imperative for all stakeholders to work in a collaborative and coherent manner, to appropriately balance efficiency, innovation, and stability.** Remittance market players see inconsistencies or overburdensome application of regulatory requirements under the Exchange Control Regulations, the FICA, the Immigration Act, and the IMTT lead to disruption of remittances services in this corridor. While it is acknowledged that the mandates of each authority are not be aligned, it is important to emphasize the need for national authorities to foster a more collaborative ecosystem to coordinate the introduction of new policies or regulatory requirements.

10. **The mission noted several authorities are constrained in terms of resources and capacity to develop appropriate policies and provide adequate supervision and oversight of remittance service providers.** Specifically, the FSCA noted the lack of capacity leads to prioritizations on conduct regulation and supervision of banks over remittance service providers since its establishment in 2018. Capacity gaps can lead to unchecked new risks and may also hinder innovation within the market. Furthermore, improved capacity and resources are essential for effectively implementing legal and regulatory reforms. Therefore, it is recommended for authorities to develop and implement a plan for capacity building. In this regard, the IMF and World Bank stand ready to provide technical assistance to help member countries to build strong institutions and boost skills to formulate and implement sound policies.

Annex V. Meetings with Representatives from Public, Private, and Non-Profit Institutions

Day	Entity	Entity Type	Gov/Pvt	Cou
Day 1	National Payment System Department	Authority	Gov	SA
Day 1	Finmark Trust	NGO	Non-Profit Pvt	SA
Day 2	Ned Bank	Bank	Pvt	SA
Day 2	Mastercard	PSP	Pvt	SA
Day 2	Mukuru	Non-Bank	Pvt	SA
Day 2	Finmark Trust	NGO	Non-Profit Pvt	SA
Day 2	Standard Bank	Bank	Pvt	SA
Day 3	BankServeAfrica	Scheme Operator	Non-Profit Pvt	SA
Day 3	Hello Paisa	Non-Bank	Pvt	SA
Day 3	Mukuru	Non-Bank	Pvt	Zim
Day 4	PAPSS	Scheme Operator	Non-Profit Pvt	Reg
Day 4	SADC RTGS	Scheme Operator	Non-Profit Pvt	Reg
Day 4	MoneyGram	Non-Bank	Pvt	SA
Day 4	TerraPay	Non-Bank	Pvt	SA
Day 4	National Payment System Department	Authority	Gov	SA
Day 5	Exchange Control Division	Authority	Gov	Zim
Day 5	STANBIC Bank	Bank	Pvt	Zim
Day 5	National Payment Systems & Fintech Department	Authority	Gov	Zim
Day 6	Ria Sikhona	Non-Bank	Pvt	SA
Day 6	World Remit	Non-Bank	Pvt	SA
Day 6	Prudential Authority	Authority	Gov	SA
Day 6	Financial Surveillance Department	Authority	Gov	SA
Day 6	Financial Intelligence Centre	Authority	Gov	SA
Day 7	Financial Sector Conduct Authority (FSCA)	Authority	Gov	SA
Day 7	National Payment System Department	Authority	Gov	SA
Day 7	National Treasury	Authority	Gov	SA



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