



Use of electronic money (EM) and payment service providers (PSPs) as a legal framework for the implementation of such means of payment, Palestine

Project MedTOWN

Co-production of social policies with social and solidarity economy actors to fight poverty, inequality and social exclusion.



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QUESTIONNAIRE PROJECTS PHASES AND LOCAL PARTNERS. MEDTOWN PROJECT. 3rd LOT.

DEMONSTRATIVE ACTION. Name: Citizen and SSE waste processing. A circular economy model

MUNICIPALITY, REGION AND COUNTRY ACTION: Beitillu village, Palestine

BRIEF DESCRIPTION OF CONTEXT:

The PA has laid the key building blocks for the development of digital financial services in WB&G. Several strategies and regulations have recently been adopted to encourage the development of the market, including a Comprehensive National Payment Development Strategy (2018–2023), National Strategy for Financial Inclusion (2018–2025), regulations on licensing of payment service providers (2018) (which have facilitated opening the market to nonbanks and strengthened competition), and regulations in support of specific stored value products (e-money), with an initial focus on e-wallets and prepaid cards. Based on Findex 2017 data, 25 percent of adults in the West Bank and Gaza have a transaction account, but only 14 percent have debit cards. Card ownership is growing.

E-wallets and prepaid payment cards issued by nonbanks, were first introduced in the West Bank and Gaza in 2020, facilitated through changes to the legal and regulatory framework. The use of e-wallets is currently limited to transfers and payments between other e-wallets issued in Palestine. The number of prepaid cards issued by the new payment service providers remains very low compared with the number of e-wallets.

Wider adoption of digital financial services is hampered by several factors. Deficiencies in the legal framework reduce competition and hinder the development of digital financial services. Most important among these are (1) the lack of a broad regulatory framework for payment services to facilitate competition in the market through the entry of new providers and to create common standards on transparency and user protection; (2) different financial services (for example, e-wallets and prepaid payment cards) are subject to separate regulations, which adds complexity and makes compliance more difficult; (3) the existing regulation does not provide a level playing field between new payment providers (such as mobile wallet providers) and banks. Furthermore, interoperability between the new types of payment services is not mandated and faster payment capabilities (for real-time payments) are not supported by the current payment infrastructure. Lastly, government payments are done primarily by checks, which does not incentivize the development of digital financial services.

ARRAY TO BE FILLED IN:

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1 ¹	Existing applicable legislation	The National Payments Law (approved in	The PMA is the sole regulator of banks and the	Given the existence of a good



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<p>governing EM and PSPs</p>	<p>November 2012).</p> <p>Electronic Transactions Law (2017)</p>	<p>different types of payment service providers in operation in Palestine. Banks operating in WB&G are regulated under Presidential Decree No 9 of 2010 on Banking Law. The PMA also has the exclusive powers to supervise and oversee payment systems in Palestine.</p> <p>The National Payments Law of 2012 provides the PMA exclusive powers to supervise and oversee payment and settlement systems. The law provides the PMA powers to supervise payment systems and provide approvals to existing and new providers of payment services and providers of clearing and settlement facilities. The law also includes general provisions such as on the irrevocability and finality of payments. The law provides the PMA broad powers to make necessary decisions and instructions in relation to fulfilling its different roles under the law, and a broad regulatory framework is in place in relation to banks and money exchanges.</p> <p>An oversight policy framework based on international standards and best practices is in place and this forms the basis for the oversight activities of the PMA. The PMA has established a separate and dedicated oversight unit, which is responsible</p>	<p>telecommunication infrastructure, an established banking system, and advanced IT applications that guarantee internet security, the eCommerce market in the West Bank and Gaza has significant growth potential. However, Digital financial services are still in their infancy in Palestine, and this is in no small part due to weaknesses in the legal and regulatory environment. Backed by the necessary legal and regulatory advances, such services could become an important tool to increase the level and depth of Access to financial services for Palestinians. The COVID-19 pandemic has highlighted the important role digital financial services –including e-payments and e-commerce– can play in reducing</p>

¹ Especially related to the Social Solidarity Economy (SSE).



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			<p>for applying the oversight policy framework.</p> <p>A somewhat general legal and regulatory framework is in place in support of conducting electronic transactions through the use of electronic documents and electronic signatures. A basic recognition of electronic signatures and electronic record keeping is contained in the NPS law, and A general framework recognizing the validity and authenticity of electronic signatures is in place. This Ministry of Telecommunications and Information Technology is legally mandated with regulating and licensing electronic signatures as set out in the Electronic Transactions Law No. 15 of 2017. This wider framework is also of importance for digital financial services and e-commerce in Palestine.</p> <p>A more comprehensive legal and regulatory framework is being put in place in support of developing the market for payment services. A significant step in this regard was taken in 2018 with the adoption of regulations on the licensing of payment service providers, which has facilitated the opening up of the market for payment services to nonbanks, thereby increasing competition and establishing a level playing field in the provision of payment services.</p> <p>These general regulations have been supplemented with further regulations in support of specific stored value products (e-money). The stored value products can be offered by the new types of payment service providers licensed under the new licensing regime, initially by focusing on e-wallets and prepaid cards. The aim of the new regulatory framework is to facilitate a more differentiated and innovative offering of payment services and especially digital</p>	<p>disruptions to the economy and service provision, maintaining economic activity, supporting social transfers, and ensuring safe transactions in times of crises. Financial sector actors in the West Bank and Gaza would benefit from the creation of a robust digital financial services ecosystem to serve all Palestinians.</p> <p>Fff</p>



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			<p>payment services. Five companies have so far been granted a license to operate under the new regulations as payment service providers and have commenced their operations in Palestine.</p>	
2	<p>Purpose of the regulation</p>	<p>The Payment System Law of i2012 aims to facilitate electronic transactions and establish measures to combat money laundering and fraud.</p> <p>The Electronic Transactions Law on the other hand aims to:</p> <ol style="list-style-type: none"> 1- To facilitate and regulate electronic transactions by reliable electronic communications or records; 2- To eliminate barriers or challenges to electronic transactions arising from uncertainties over writing and signature requirements, and promote the development of the legal infrastructure necessary to implement secure electronic transactions and subsequent amendments; 3- Minimize the likelihood of forged 		



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		<p>electronic communications, alteration of communications and fraud in electronic transactions;</p> <p>4- Establish uniform legal rules, regulations and standards for the authentication and validity of electronic communications and records;</p> <p>5- Promote the growth of electronic commerce and other transactions on the national and international levels through the use of electronic signatures.</p>		
3 ²	<p>Theoretical Consideration- Definition of EM and PSP (According to regulations)</p>	<p>Electronic Transactions: transactions concluded or performed, in whole or in part, through electronic means.</p> <p>A payment system is defined by the CPMI as: set of instruments, procedures, and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement.</p>	-	-
4	<p>Scope of application of EM and PSPs legislation</p>	<p>The National Payment Law applies to the following: 1) all payment orders conducted by public and private entities through banks, financial institutions, or any other entity that may be granted the right by the Payment Law to provide payment services using any of the legally permitted currencies, and 2) all and any electronic money transfers, electronic payment records and electronic signatures linked to payment services.</p> <p>The Electronic Transactions Law applies to the following: 1- Electronic transactions,</p>	<p>Both laws apply to public and private entities, and cover the West Bank and Gaza.</p>	-

² Necessary for making comparative terms of equivalent concepts



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		<p>records and signatures as well any electronic Data Message; 2- Electronic transactions used by any government department, official institution or private entities, in whole or in part.</p>		
5	<p>Stakeholders Involved in EM and PSPs</p>	<p>Palestine Monetary Authority (PMA)</p> <p>Palestinian Capital Market Authority (PCMA).</p> <p>Ministry of Telecommunications and Information Technology (MoTIT)</p> <p>Commercial Banks</p> <p>Payment Services Providers</p> <p>Telecommunications Companies (JAWWAL and ALWATANEYA)</p> <p>IT Companies providing internet solutions (including e-commerce, security)</p>	-	
6	<p>Administration - competent legislative body EM and PSPs</p>	<p>The PMA is an independent public institution responsible for the formulation and implementation of monetary and banking policies to maintain price stability and low</p>	<p>The PMA is the sole regulator of banks and the different types of payment service providers in operation in Palestine. Banks are regulated under Presidential Decree No 9 of 2010 on Banking Law.</p>	<p>The PMA is unable to perform one of the central bank's very core responsibilities- to provide</p>



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		<p>inflation, foster financial stability and safeguard the banking sector and promote sustainable growth of the national economy. The legal mandate of the PMA covers: developing and executing monetary policy; effective and transparent regulation and supervision of banks, specialized lending institutions and money changers; and, overseeing the development, implementation and operation of modern, efficient payment systems.</p> <p>The PCMA was Established as an autonomous agency by law No.13 of the year 2004. Its jurisdiction encompasses securities, insurance, financial mortgage and leasing sectors, along with any other non-banking financial institutions. Its legal mandate is specific to regulating, supervising, and overseeing the securities, insurance, financial leasing and mortgage finance sectors as well as ensuring that their work complies with the principles of transparency, fairness and integrity, in line with international best practices.</p>	<p>The PMA also has the exclusive powers to supervise and oversee payment systems. The law provides the PMA powers to supervise payment systems and provide approvals to existing and new providers of payment services and providers of clearing and settlement facilities. The law also provides the PMA broad powers to make necessary decisions and instructions in relation to fulfilling its different roles under the law, and a broad regulatory framework is in place in relation to banks and money exchanges.</p>	<p>liquidity in times of need. This leaves Palestine, both economically and politically under the mercy of outside finance to cover its needs</p>
7	<p>Administration - competent executive body EM and PSPs</p>	<p>i)Ministry of Telecom & Information Technology (MTIT)</p> <p>In 2018, the PMA commenced the process of opening up the market for payment services to nonbanks. These new payment service providers are able to offer different types of payment services, including stored value products. By the end of 2021, operating licenses had been granted to five payment service providers, of which four have</p>	<p>The MTIT is responsible for regulating the telecommunications sector areas under its jurisdiction (Areas A and B) as provided in the Oslo Agreement, which subjects many regulatory areas to coordination between the Palestinian and the Israeli authorities.</p> <p>PCMA jurisdiction encompasses securities, insurance, financial mortgage and financial leasing sectors, along with any other non-banking financial institutions</p>	<p>i) Despite the drafting of a new Law on Telecommunications and the PA Statement 2010, there has been no progress on the creation of the PTRAs</p> <ul style="list-style-type: none"> Local telecom companies depend on the Israeli authorities to issue spectrum and frequencies, oftentimes delaying operations.



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		<p>commenced offering payment services to customers, mainly through providing e-wallets and to a lesser extent prepaid card-based payment services.</p> <p>PMA is considering establishing a national payment company to take over the ownership and operations of some of the retail payment system activities currently held by the PMA.</p>		<ul style="list-style-type: none"> • Due to restrictions, mobile operators can only supply a 2G mobile system. Israeli operators have an edge in the competition as they are capable of offering 3G/4G signals in the West Bank
8	<p>Measures promoting or encouraging EM and PSPs</p>	<p>The PMA has adopted a comprehensive National Payment Development Strategy. The strategy covers 2018 to 2023 with the overall vision to build Palestine into a leading user at the forefront of electronic payment methods in the manner that supports the national economy and enhances risk mitigation. The strategy employs a broad approach of promotion of the use of electronic payments through the involvement of all relevant actors and with particular focus on the enabling infrastructure. The adopted strategy primarily focuses on promoting digital payments; it will assist in providing the foundation for the wider use of digital financial services in WB&G.</p> <p>The National Payment Development Strategy</p>	<ul style="list-style-type: none"> - The Palestinian Monetary Authority is studying the possible issuance of a digital currency (2021) - Palestinian officials are planning for the territory to have its own digital-only currency within five years, a move designed to safeguard against potential Israeli interference - The PMA is in the process of putting in place a comprehensive legal and regulatory framework in support of developing the market for payment services, which will have considerable direct impacts on digital payment services. One of the cornerstones of the legal and regulatory framework is to open the market for payment services to non-banks. The PMA adopted instructions on the licensing of payment service providers in 2018, which was complemented with a number of additional Instructions regarding stored value products covering the issuing of pre-paid cards and 	



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		<p>is focused on several key areas, including (1) developing the legal environment in support of payments and e-commerce; (2) developing the infrastructure supporting payments; (3) increasing access to electronic payments, in particular across the different demographics; and (4) raising public awareness in relation to electronic payments and using the public sector as a catalyst for increasing the use of electronic payments.</p> <p>The PMA has also adopted a National Strategy for Financial Inclusion for 2018 2025 with the vision of achieving a developed financial sector that fully meets the financial needs of all segments of the Palestinian society to improve their welfare. The strategy defines financial inclusion as enhancing access to, and use of, financial products and services by all segments of society via formal channels, while meeting their needs in a timely and affordable manner, protecting their rights, and promoting their financial knowledge to enable them to make well informed financial decisions. Only 36.4 percent of the adult population was financially included in 2016. The strategy is based on the overarching goal of increasing financial inclusion of the adult population to at least 50 percent by 2025. This is to be achieved by a targeted focus on particular segments of the population, in particular women and young people.</p>	<p>e-wallets in April 2020. These Instructions will facilitate more competition in the market regarding payment services and assist in increasing the use of digital payments. Five PSPs have already commenced operations, and there will likely be others.</p> <ul style="list-style-type: none"> - Efforts are currently underway to establish a National Payments Company to achieve the strategic goals of improving access to retail payment systems in the country, promoting a cashless ecosystem and providing low-cost, safe, and efficient retail payment services their particular scope and application to ensure legal clarity and legal certainty and should also be further complemented by a general legal framework regarding payment services. - In 2018, the Palestinian Authority approved a national plan to cultivate the use of electronic payment methods, which includes developing the legal environment and strengthening the regulatory framework for service providers. A Fintech strategy was also developed. - The leading mobile network operator Jawwal launched in 2019 the first mobile money service, Jawwal Pay (Abumaria 2019). This will provide competition to PalPay, a bank-led services established in 2010 by the Bank of Palestine and PCNC IT Solutions. PalPay has a large network, consisting of more than 6,000 points of sale. Its agent network can now transact on behalf of unbanked citizens, taking cash or credit card payment to electronically pay bills, send university fees, or top-up mobile accounts (PalPay, n.d.) 	
9	Other EM and PSP related	-	-	-

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	legislation			
10	Possibility of creating new EM and PSP legislation	Possibility is quite high since the Financial Inclusion Strategy and the FinTech Strategy include several recommendations/proposed actions for reviewing and updating the legal and regulatory framework, including that affecting EM and PSPs.	A FinTech strategy has been developed in 2021. It sets out a comprehensive approach for harnessing the benefits of fintech in Palestine through several detailed recommendations, which are to be implemented during 2020–28, supported by specific governance, monitoring, and oversight arrangements.	The PMA has been considering introducing a digital currency, but it is not permitted to do so per the 1994 Paris Protocol. There is disagreement as to whether cryptocurrencies offer a sustainable solution to the West Bank and Gaza's financial challenges, including economic concerns and the fact that Gazans regularly face electricity blackouts of 20 to 22 hours a day
11	Possibility to amend existing legislation EM and PSP	Same as above	Same as above	
12	Problem identification/Regulatory implementation EM and PSPs	<ul style="list-style-type: none"> - Israel's restrictions and the dependency of Palestine on the Israel Central bank and regulation pose a huge barrier for e-banking development in the territories, especially due to strict KYC requirements - The retail sector in Palestine is highly dispersed without a major retail chain, posing difficulties for establishing a distribution 	<ul style="list-style-type: none"> - The general use and penetration of basic financial services in the West Bank and Gaza, including digital payment services, is low overall and the reliance on cash and checks as the primary means of payments remains very high where, for example, more than 80 percent of utility bills are paid using cash only - Payments from the government to citizens are 	<ul style="list-style-type: none"> - Payment cards are the principal digital retail payment instruments in the West Bank and Gaza. - Due to the global heightened money laundering and terrorist financing concerns, banks operating in the West

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		<p>network</p> <p>- Challenges to the Adoption of Branchless Banking include: the lack of a national payment system and national switch; restrictions and gaps in the regulatory framework (particularly with respect to outsourcing financial transactions, money laundering and terrorist financing, electronic money, electronic commerce and security, consumer protection, and payment systems); PMA concerns about the risks inherent in BB delivery mechanisms; a conservative banking sector; consumer education needs; product design challenges; and the existence of a well-established brick-and-mortar infrastructure.</p>	<p>predominantly made by check and payments by citizens to the government are predominantly in cash</p>	<p>Bank and Gaza are experiencing difficulties in maintaining their correspondent banking relations with foreign banks, including Israeli banks, which to some extent also affects their ability to offer digital financial services</p>
13	<p>EM, PSP regulation and others applicable to the Demonstration Action (Concrete Project)</p>	<p>Not directly, only as far as PSP are concerned.</p>	<p>N/A</p>	<p>N/A</p>
14	<p>Is there specific legislation empowering a local authority or other public body to use electronic money and other means of payment?</p>	<p>Not explicitly. The Financial Inclusion and FinTech strategy indirectly encourage the shift to e-money, but local authorities are not a key target of either strategy.</p>		
15	<p>Are there PSPs other than legal tender provided by financial institutions?</p>	<p>No</p>		<p>Yes, the current legal tender is accepted by the public sector and by the private sector and individuals</p>
16	<p>In addition to the state/government and related banks (central banks), are there other institutions that can act as PSPs?</p>	<p>Please see above answers. Short answer is yes.</p> <p>The number of PSPs has increased in recent years, bringing the total to five in 2022. They are Jawwal Pay, Mad Foat, Maalchat, Meps Pay, and –the largest- PalPay. According to PMA data, PSPs offer a total of 9,000 POS</p>		



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	<p>devices in partnership with commercial banks.</p> <p>While most transactions in the West Bank and Gaza are carried out through bank POS and bank ATMs, PSPs are making progress in reaching rural markets and increasing their penetration. Several are developing digital payment services for banks, repayment collections for MFIs, and e-platforms for individuals and MSMEs to sell their products and services and to receive secure payments. Key challenges to advance these services highlighted by the IMF and World Bank in this regard include demand-side and regulatory challenges. On the demand-side, the lack of awareness of DFS is a primary challenge, coupled with a widespread mistrust of digital services. On the regulatory side, PSPs would welcome regulation on e signatures and e-KYC, which would help improve the use of mobile wallets.</p>		
<p>17 Is there any legal security (insurance) coverage to support e-money and PSP related to SSE?</p>	<p>The legal framework is weak when it comes to legal security. The PA is working on introducing several laws to bridge this gap, but progress has been slow. Missing elements include laws on access to information, protection of personal data, cybersecurity,</p>	<ul style="list-style-type: none"> - KYC in the West Bank and Gaza is governed Anti-Money Laundry Law (AML) by the Palestine Monetary Authority Law #2 of 1997. - The PA has a very effective supervision and regulatory compliance function for financial institutions and nonfinancial businesses and 	<ul style="list-style-type: none"> - The PA can only properly control these issues in A and B areas, leaving C areas wide open. Currently, PA officials consider trade-based money laundering and customs fraud



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		<p>digital signatures, and certificates.</p> <p>In 2017, a cybercrime law was adopted that addresses legal issues concerning online interactions that could potentially include identity theft and illegal access to data. MTIT is working on filling the legislative gaps through revisions to the E-Transactions Law, such as e-signature and other standards. It is also working to build the foundation for the creation of a Certificate Authority to issue digital certificates and digital signatures. A draft Competition Law was recently approved by Cabinet but remains to be enacted. Further, MTIT is working on development of an e-government strategy and roadmap that will guide the digital transformation and introduction and scale up of e-money and payment services.</p>	<p>professions.</p> <ul style="list-style-type: none"> • The AML law was decreed by the president in 2007 which was developed with the IMF technical assistance and in line with the international standards for combating money laundering • The Financial Follow Up Unit was officially established in 2007 as highlighted earlier aiming to keep the Palestinian economy safe from ML activities³ <p>- KYC and AML laws and regulations are crucial, and are recognized by the local banks in order to avoid fraud and most importantly avoid financing terrorism.</p>	<p>are among the largest money laundering threats to the PA</p>
18	<p>Is there an inventory, ledger or similar document that records and preserves the transactions carried out by the PSP?</p>	<p>PSPs maintain such ledger and are required to do so by PMA. PMA maintains a database that consolidates these ledgers.</p>		
19	<p>Are services paid for through EM and PSP subject to VAT, social security or other similar taxes and charges?</p>	<ul style="list-style-type: none"> - There are no transfer taxes in Palestine. - There are no social security contributions in Palestine. - Payments made through PSPs are subject to VAT. 		
20	<p>Is there any kind of legal security (insurance) coverage to support the use of e-money and PSP and related to SSE?</p>	<p>See above.</p>		
21	<p>Personal Data Protection, Health and Safety: do e-money and PSP issuers cover these</p>	<p>No.</p>		



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	legal aspects vis-à-vis users?			
22	Other issues to highlight	N.A.		

CHALLENGES & RECOMMENDATIONS:

Several internal and external factors contribute to the relatively slow development of the digital economy in Palestine, and these have a direct bearing on EM and PSPs. Restrictions imposed by the Government of Israel (GOI) are among the key impediments to development of the digital economy in Palestine as they impeded building infrastructure, spectrum allocation, ICT equipment import and deployment, and enforcement of Palestinian laws in Area C. Deficiencies in the regulatory environment and capacity constraints include weaknesses in the legal framework (including lack of laws on cybersecurity, personal data protection, and regulations specific to PSPs and digital business registration), and lack of data on key elements of the digital economy.

Wider adoption of digital financial services, including payment services and e-money- is hampered by several factors, not least of which being –also- the deficient the legal framework. There is no broad regulatory framework for payment services to facilitate competition in the market through the entry of new providers and to create common standards on transparency and user protection. Different financial services (for example, e-wallets and prepaid payment cards) are subject to separate regulations, which adds complexity for PSPs and makes compliance more difficult.; and the existing regulation does not provide a level playing field between new payment providers (such as mobile wallet providers) and banks who have a much wider access to central financial data on citizens through the PMA and have lower restrictions when it comes to agents and POS. Furthermore, interoperability between the new types of payment services is not mandated and faster payment capabilities (for real-time payments) are not supported by the current payment infrastructure. Lastly, government payments are done primarily by checks, which does not incentivize the development of digital financial services. Incentives for citizens and non-financial organizations to shift to digital financial services are also lagging behind, while a culture of cash-economy and mistrust in banks and electronic services prevails.

Efforts should focus on improving the regulatory framework, strengthening the national payments infrastructure, and creating incentives for the use of digital financial services, including EM and electronic payment services. Regulatory reforms to strengthen competition in the payment services market and ensuring that a common set of rules is applicable across different types of payment services (rather than regulating each of them separately) is very much needed. The national payments infrastructure can be substantially strengthened by requiring banks and PSP to work together to advance interoperability which are essential for enabling fast payments and support e-wallets and mobile payments.



Several measures could be introduced to incentivize the use of digital financial services. For example, the usage of digital payments could be promoted through incentives for merchants to accept e-wallets and acceleration of payments to and from the government. Implementation of the financial inclusion strategy should have a strong focus on vulnerable communities and incorporate the use of new payment products. Citizen education is a cornerstone for success in this area.

MEASURES TO BE IMPLEMENTED:

Demonstration project should integrate elements of awareness raising of digital financial services. It also should explore how to leverage e-wallets and pre-paid cards held by citizens in the target community in incentivizing solid waste disposal.

OTHER INTERESTING SUGGESTIONS/NOTES:

N.A.

IDENTIFIED CONFLICTING ISSUES (if any):

N.A.

EXAMPLES OF ACTIONS DEVELOPED IN THE FIELD OF SSE IN THE COUNTRY, REFERENCES AND HOW THEY HAVE BEEN DEVELOPED (if any):

N.A.