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Prospects for Cross-border e-payments in the East African Community (EAC): What Barriers limit Access and Interoperability?

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Content Outline

- ❑ Background and context
- ❑ What is shaping digital adoption in East Africa?
- ❑ Methodology
- ❑ Key findings and discussions
- ❑ Relevance to policy and Practice

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Background and Context - Why Cross-Border E-Payments Matter?

- Digital Payments Are Becoming the Backbone of Regional Trade
- Cross-border e-payments support:
  - Trade facilitation
  - MSME growth
  - Financial inclusion
  - Regional integration

Yet...

- Despite rapid digitalization, payment systems across the EAC remain fragmented.
- Adoption Is Growing Faster Than Integration

Key Question

How can the region move from digital adoption to seamless interoperability?

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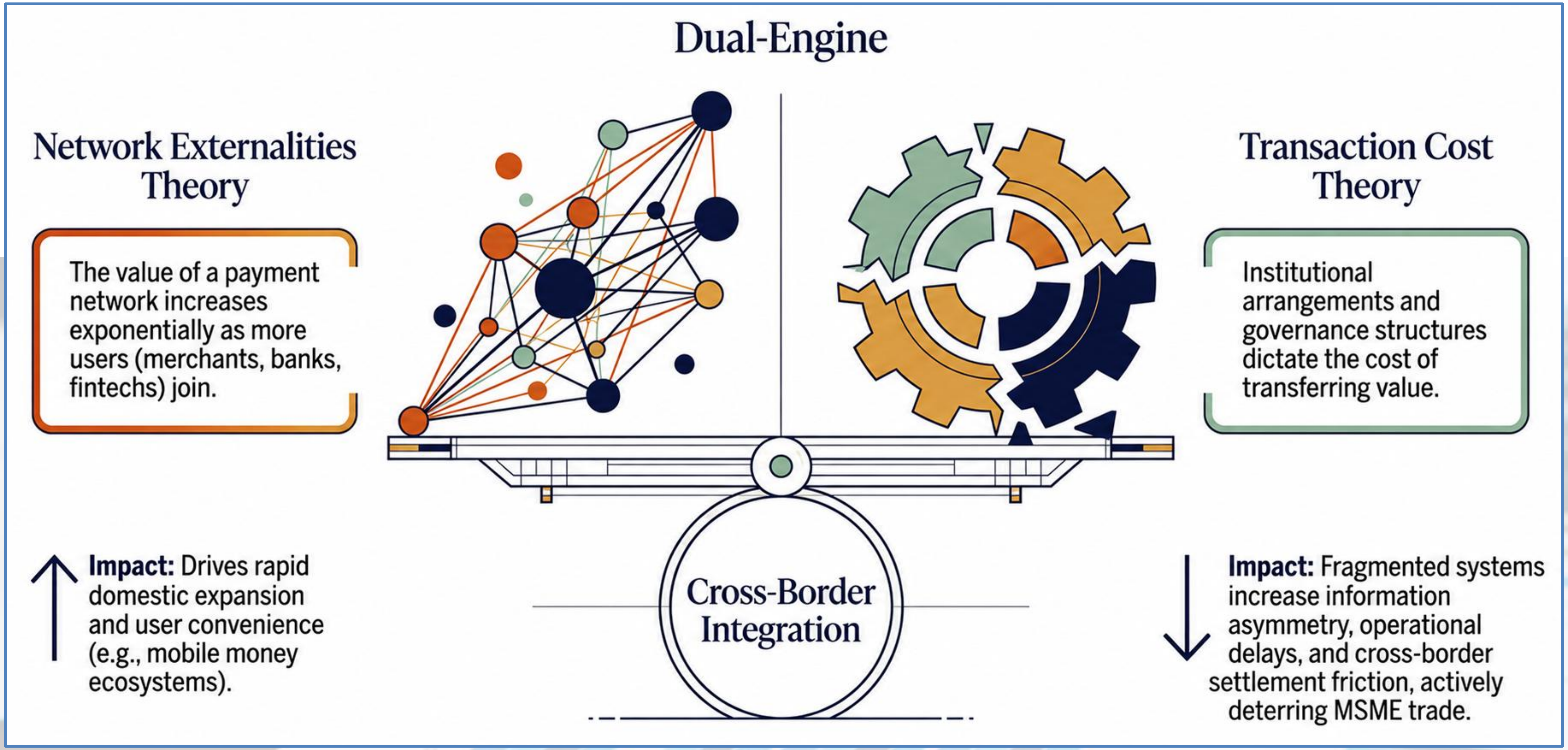
What is shaping digital adoption in East Africa?



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Methodology (1/3)

- The study relies on World Bank Enterprise Survey (MSMEs) enterprise level data across four countries.
  - Rwanda
  - Kenya
  - Tanzania
  - Uganda
- Captures operational behaviour, digital usage and infrastructure constraints.

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Methodology (2/3)

Figure 1. Distribution of MSMEs by country and Firm size

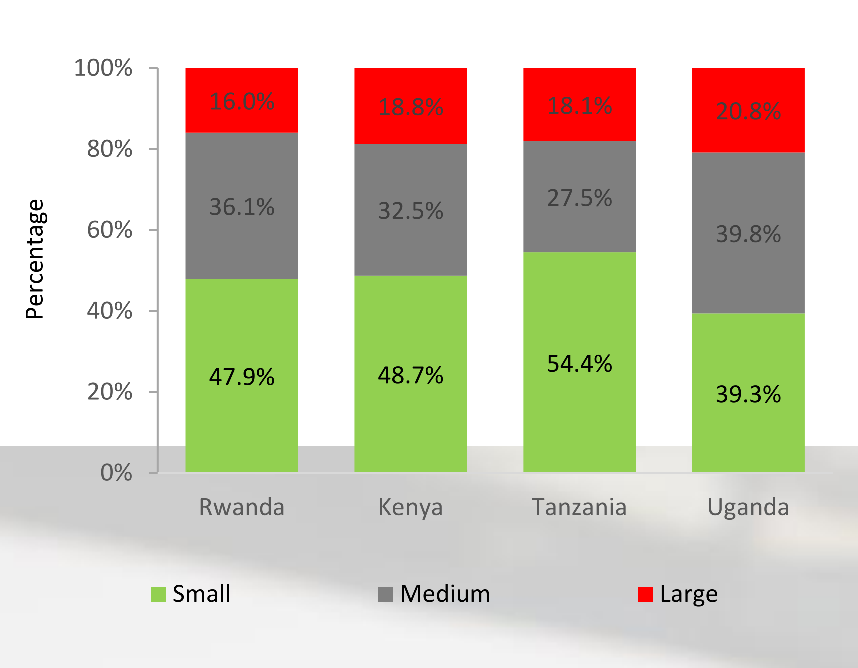


Figure 2. Legal status of enterprises across countries

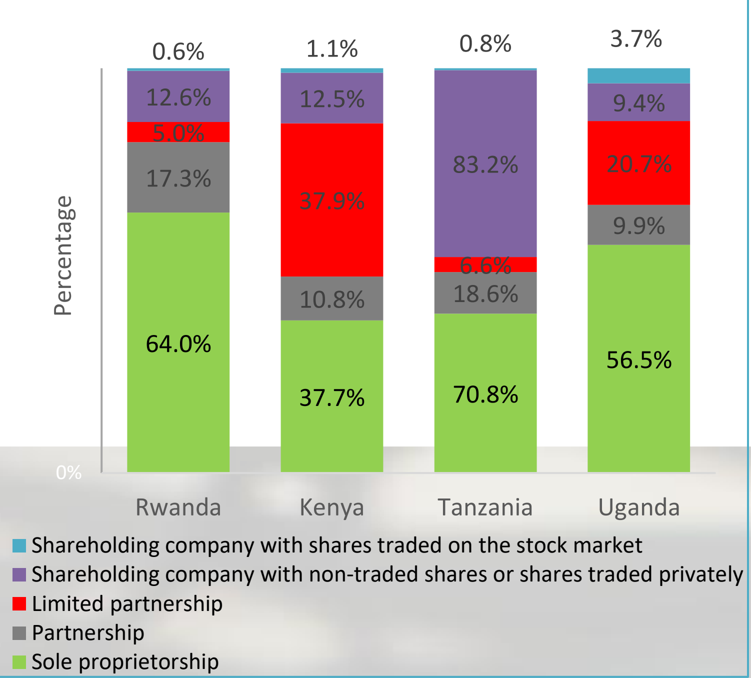


Figure 3. Period of operation of enterprises across countries

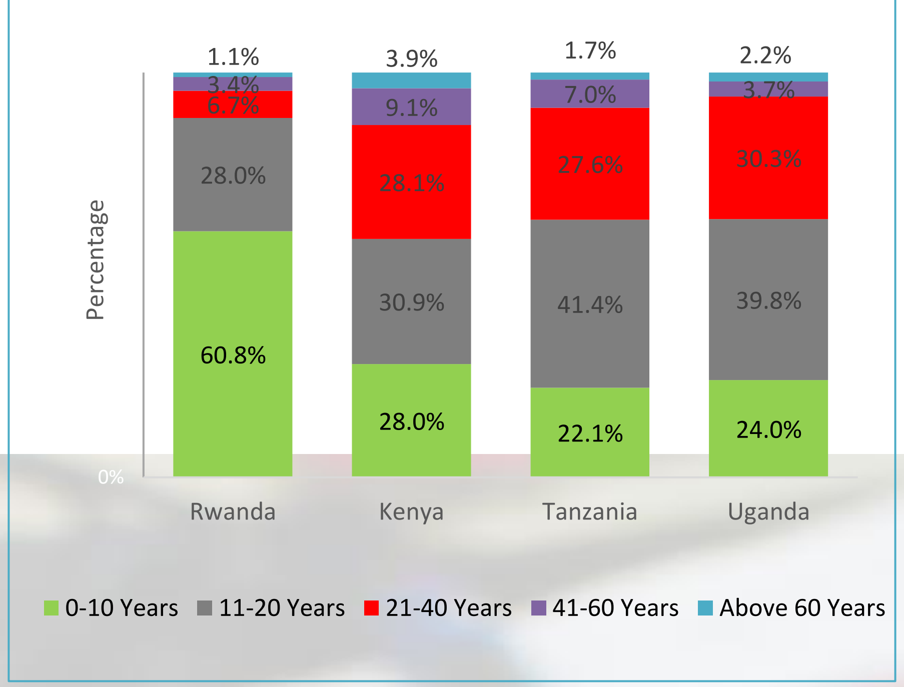


Figure 4. Internet connection of enterprises across countries

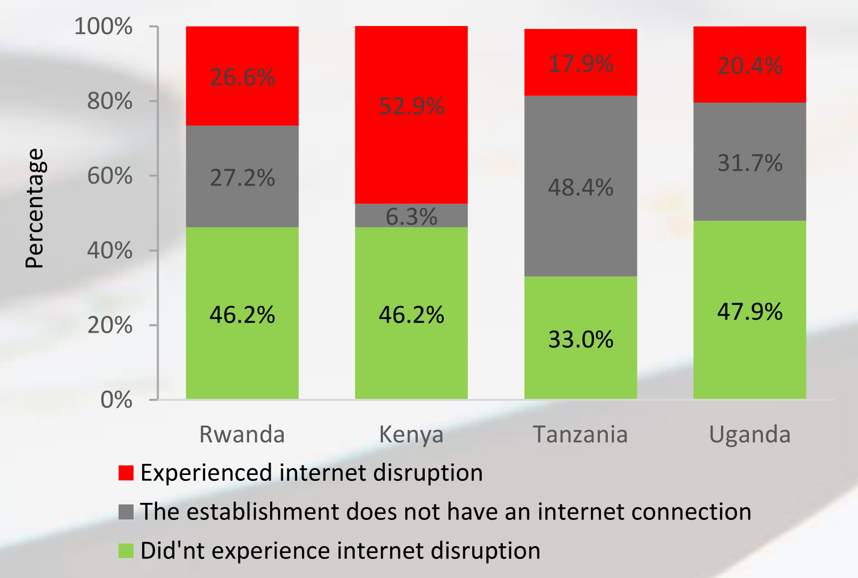


Figure 5. Preferred e-payment channels across countries

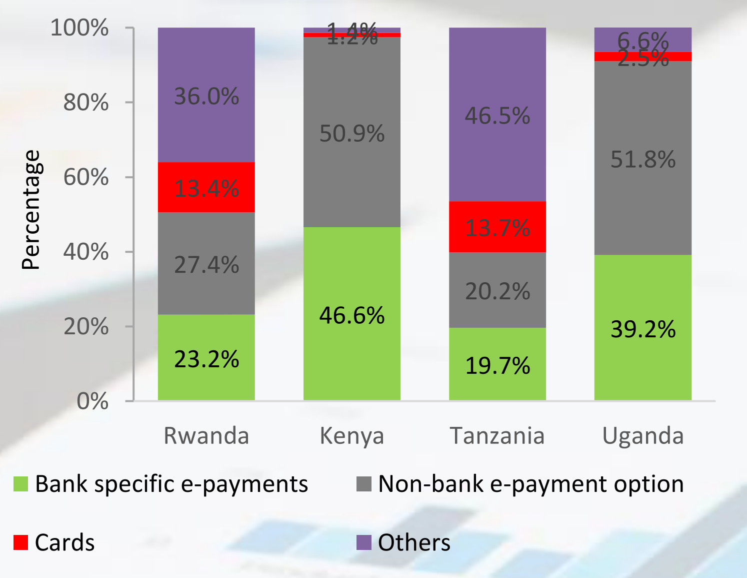
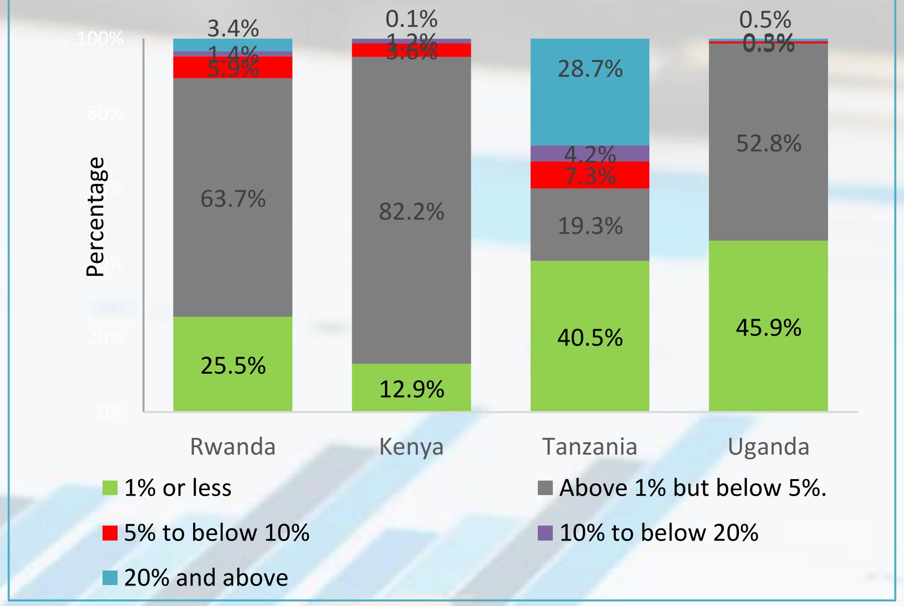


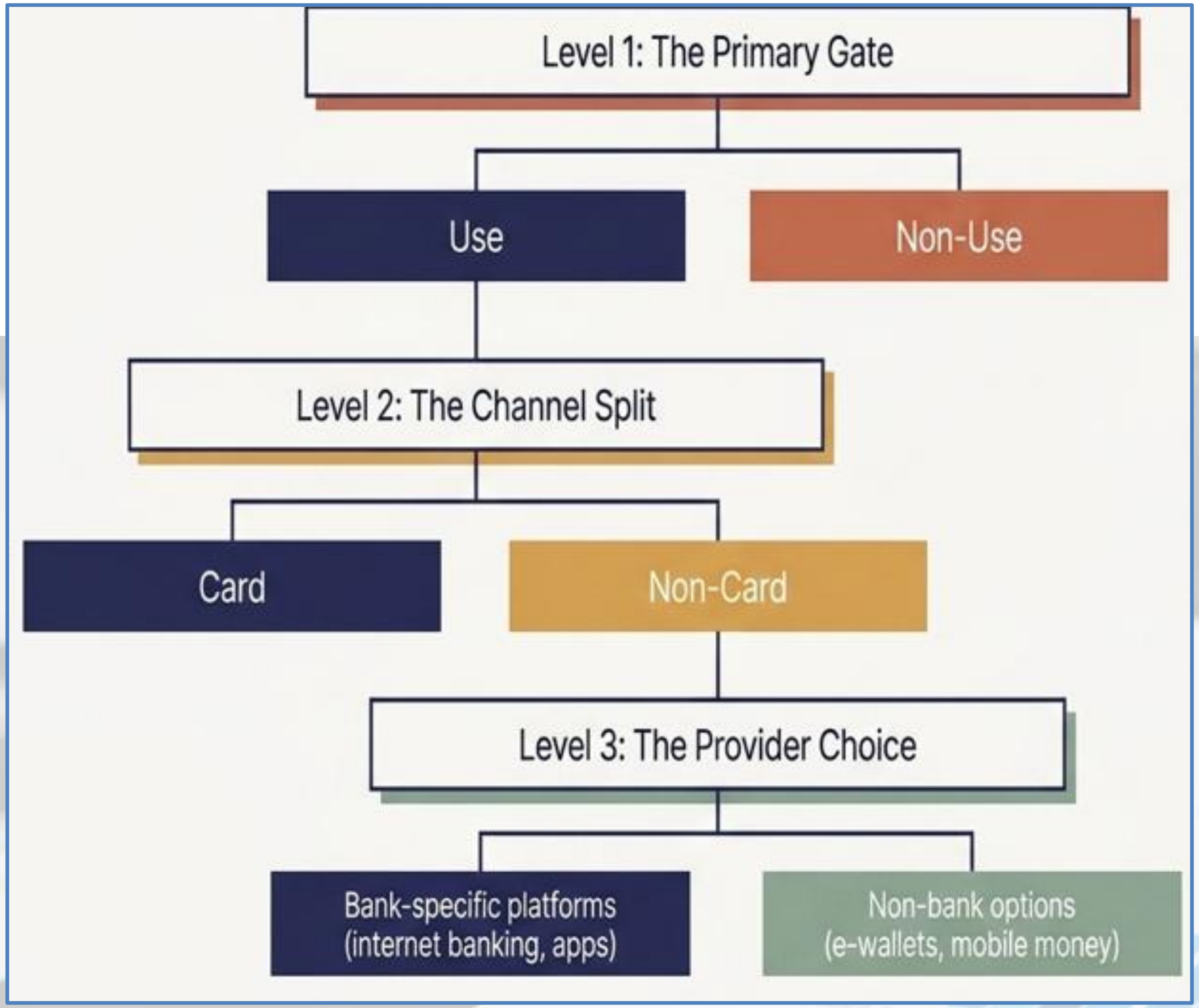
Figure 6. Average Transaction Costs by Payment Type and Country



Key insights Across EAC Countries

- Small enterprises dominate the sample across all countries.
  - Tanzania having the highest proportion of small firms.
- Sole proprietorships are the predominant legal structure
  - Particularly in Rwanda and Uganda
  - Tanzania has a relatively larger share of shareholding businesses.
- Most enterprises are young to mid-aged (0–20 years)
  - Although Kenya, Tanzania and Uganda exhibit a relatively higher proportion of firms operating for more than 20 years.
- Majority of the enterprises have access to internet connectivity in the region.
  - In Kenya, though a notable share of firms still report occasional disruptions.
- Bank-based payment instruments remain more important in Tanzania and Uganda, indicating continued reliance on traditional financial institutions.
- The majority of firms report low transaction costs (≤1%), although transaction cost structures vary across countries and payment channels.

Methodology (3/3)



Modelling MSME e-payment decision Journey

- Heckman selection framework with three-stage decision process
  - Why This Method?
    - Corrects for selection bias and captures real-world payment choices.

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Results and Discussion

Stage 1: Decision to Use E-Payments for Cross-Border Transactions

- **Internet connectivity, transaction costs and country effects are the primary drivers of adoption.**
- Firms without internet access are significantly less likely to adopt e-payments.
- Strong country-specific differences exist:
  - **Rwanda:** 33.9 percentage points less likely than Kenyan firms to use e-payments.
  - **Tanzania:** 37.6 percentage points less likely than Kenyan firms to use e-payments.
  - **Uganda:** 2.2 percentage points less likely than Kenyan firms to use e-payments.

Stage 2: Card-Based versus Non-Card E-Payment Choice

- Among firms already using e-payments:
  - Rwanda: 21.6 percentage points more likely than Kenya to use card-based payments.
  - Tanzania: 28.8 percentage points more likely than Kenya to use card-based payments.
  - Older firms (21–60 years) also show a stronger preference for card-based payment channels.
- In Rwanda and Tanzania, payment ecosystems remain relatively bank and card-centric, pointing to greater reliance on traditional financial institutions.

Stage 3: Bank-Based versus Non-Bank E-Payment Choice

- Among e-payment users:
  - Firms in Rwanda and Tanzania are significantly more likely to rely on bank-based payment channels than firms in Kenya.
  - Kenyan firms demonstrate stronger utilization of non-bank digital channels, particularly mobile money platforms.
- Kenya's digital payments landscape is driven by mobile money innovation, whereas Rwanda and Tanzania continue to depend more heavily on bank-led payment infrastructure.

Relevance to Policy and Practice

- Harmonize KYC, AML/CFT and licensing requirements across Partner States.
- Develop interoperable regional payment infrastructure linking banks, fintechs and mobile money operators. ISO 20022, Regional switches, etc.
- Reduce cross-border transaction costs and settlement times.
- Promote mutual recognition of digital identities and customer verification systems.

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Thank you!