Annex 1. Guidance for alternative payment methods

Core message. Alternative payment methods are an exception. The general rule is that funds must always be transferred via bank transfer to the implementing partner's bank account in accordance with Article 9.6. Where this is not possible or justifiable, Sida may, following a specific assessment, approve an exception.

Purpose and background

This guidance is intended for partner organisations that may need to use payment solutions other than standard bank transfers to the implementing partner's bank account. The purpose is to describe when such solutions may be appropriate, what risks typically arise, and what general requirements apply to internal governance, control, documentation, and follow-up.

Background

In certain countries and contexts, the banking system does not function well enough to make standard bank transfers possible, secure, or practically feasible. This may for example be due to conflict, crisis, sanctions, lack of functioning banking infrastructure, security risks, or other circumstances that make it impossible to comply with the general rule without creating unreasonable obstacles or risks.

Sida may therefore, in exceptional cases, grant an exemption from Article 9.6. of the General Conditions. Such an exemption is not based on the risks disappearing, but on the organisation being able to demonstrate that the risks have been identified, assessed, and managed in a sufficiently robust manner.

What is meant by alternative payment methods?

In this guidance, alternative payment methods refers to solutions whereby funds are transferred to the implementing partner by means other than a standard bank transfer to a bank account, as set out in Article 9.6. These are therefore situations where the general rule regarding bank-to-bank transfers and holdings in bank accounts cannot be met.

Category	**Explanation**
The following are considered alternative payment methods	• The transfer of funds to an implementing partner by means other than a standard

	bank transfer to the implementing partner's bank account in accordance with Article 9.6. • Arrangements were the key issue is that Article 9.6. cannot be complied with in practice.
These are not normally considered alternative payment methods	• Payments or transfers within the same legal entity. • Bank-to-bank transfers where an external payment service provider is used to execute the transaction itself, provided that the funds are still transferred from the partner organisation's bank account to the implementing partner's bank account in accordance with Article 9.6.
Important note	The use of an external payment service provider in a bank-to-bank transfer may nevertheless entail an increased risk. The partner organisation is responsible for assessing, documenting and managing these risks and bears responsibility should any problems arise.

Even when an external provider is used in a bank-to-bank transfers, the solution may entail increased operational, financial or compliance-related risk. However, this does not in itself mean that the solution is covered by this guidance as an alternative payment method. The partner organisation remains fully responsible for assessing and managing the risks, as well as for any problems that may arise.

Restrictive application

Alternative payment methods should be used restrictively. They should not be chosen for reasons of convenience or simply because they may appear to be quicker in an individual case. The starting point is always that standard banking solutions should be considered first and used whenever possible and justifiable.

Why do alternative payment methods entail a higher level of risk?

When funds are not transferred in accordance with the procedure set out in Article 9.6. the level of risk often increases. The main risks are usually as follows:

- Reduced traceability and greater difficulty in post verification.
- Increased risk of fraud, corruption, loss or other irregularities.
- Risks related to money laundering, terrorist financing and sanctions violations.
- Increased operational risk, such as errors, delays or inadequate documentation.
- Security risks for staff, recipients or local partners.
- Reputational risks and financial consequences if funds cannot be tracked or accounted for correctly.

It is therefore essential that the organisation has strong internal governance, clear decision-making processes, documented procedures and a risk management system tailored to the actual context.

What does the partner organisation need to demonstrate?

For Sida to consider granting an exemption, the partner organisation must be able to demonstrate the following at a general level:

- That there is a clear and documented justification for why a standard bank transfer in accordance with Article 9.6. cannot be used.
- That responsibilities and roles for decision-making, implementation, control and follow-up are clearly assigned.
- That there are documented procedures for how payments are initiated, authorised, executed, documented and followed up.
- That the organisation conducts risk assessments covering, amongst other things, fraud, corruption, security, sanctions risks, money laundering and terrorist financing.
- That relevant checks are carried out on recipients and any intermediaries.
- That transactions and decisions are sufficiently traceable and can be verified retrospectively using available supporting documentation.
- That the use of funds can still be monitored and reviewed, including through audits where necessary.

The assessment must be proportionate but sufficiently robust. The higher the risk in the context or in the chosen solution, the stronger the controls will normally need to be.

Responsibilities of the partner organisation

An exemption from Article 9.6. does not mean that the other requirements of the agreement cease to apply. The partner organisation remains responsible, amongst other things, for ensuring that:

- Funds are managed responsibly and used only for their intended purpose
- Risks are identified, prevented, monitored and managed on an ongoing basis
- Relevant sanctions checks are carried out where necessary
- Transactions and decisions can be verified retrospectively
- Supporting evidence and documentation are kept in an organised manner
- The use of funds can be audited and reported in accordance with the agreement

It is also the partner organisation's responsibility to assess whether a chosen solution or an external provider is suitable in the current context. Sida does not normally approve individual suppliers or specific technical solutions.

Practical questions to prepare

When a partner organisation is considering requesting an exemption, it is advisable to prepare answers to the following questions:

- Why does a standard bank transfer not work in the current situation?
- What specific risks are associated with the proposed solution?
- What checks are in place before, during and after the payment?
- How are traceability, documentation and the ability to follow up ensured?
- Which individuals or functions are responsible for decision-making and control?
- How are any intermediaries or external parties managed?
- How is it ensured that the funds reach the intended recipient and are used correctly?

Summary

Alternative payment methods may be necessary in challenging contexts, but they normally entail a higher risk than standard bank transfers. They are therefore an exceptional measure that requires clear justification, sound internal governance and control, documented procedures, and the possibility of traceability and audit.

However, if funds are still transferred from the partner organisation's bank account to the implementing partner's bank account in accordance with Article 9.6. this is not normally considered an alternative payment method, even if an external provider is used for the payment service itself. Even in such cases, the partner organisation remains responsible for assessing and managing any increased risks.