



GHANA ACADEMY OF ARTS AND SCIENCES

Boosting the AfCFTA: The Role of Payment and Settlement Systems

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**Chairperson, Emeritus Professor Isabella Quakyi [Vice
President (Sciences) of the Ghana Academy of Arts and
Sciences],**

**Council Members and Fellows of the Ghana Academy of Arts
and Sciences,**

Colleagues from Bank of Ghana,

Fellow Speakers,

Distinguished Guests,

Ladies and Gentlemen,

Good afternoon.

1. I would like to express my gratitude to the Ghana Academy of Arts and Sciences for the kind invitation to participate in this forum. Let me first applaud the Academy for its pioneering role of promoting studies, extension and dissemination of knowledge in the Arts and Sciences. Since its establishment in 1959, the Academy has collaborated with other national institutions to research on important issues bordering on the sciences and humanities, which has shaped



the public policy discourse and contributed to national development. This year's Public Forum, under the broad theme '*African Continental Free Trade Area: Challenges and Prospects*', is another demonstration of the Academy's commitment to this great cause. The previous speakers have covered other broad aspects of the theme, and this address will focus on '*Boosting the AfCFTA: The Role of Payment and Settlement Systems*'.

Why consider this topic while the global economy is plagued with a series of challenges?

2. Madam Chairperson, since 2020, the global economy has faced a series of shocks. Just at the time that most of the world appeared to be moving past the acute phase of the COVID-19 pandemic, with the global economy rebounding to 6.1 percent growth in 2021, after the 3.1 percent contraction in 2020, the Russian invasion of Ukraine has compounded global prospects and worsened supply-chain disruptions, exerted cost push pressures, and resulted in elevated inflationary pressures. The recent lockdowns in key trade and



manufacturing hubs in China due to the onset of another COVID-19 wave also compounded global supply disruptions and weigh down the post-COVID economic recovery.

3. In the April 2022 update of the World Economic Outlook, the International Monetary Fund has projected some moderation in global growth from 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. Growth in Sub-Saharan Africa is also projected to soften to 3.8 percent in 2022, from 4.5 percent in 2021, driven by war-induced commodity price shocks and elevated global inflation. Madam Chairperson, Ghana has experienced a fair share of the prevailing global economic conditions. Inflation surged to 27.6 percent in May 2022, from the 12.6 percent recorded at the end of 2021, driven by both food and non-food inflation.

4. Distinguished Ladies and Gentlemen, the macroeconomic effects of the COVID-19 pandemic have been broadly categorised into what is known as the 3D effects; these are: De-globalisation, Debt Overhang, and Digitalisation. First, the drive for globalisation took a hit during the pandemic, with the imposition of lockdowns and travel



restrictions to contain the spread of the virus, while protectionist sentiments pushed multilateralism to the back foot. Second, sovereign debt levels have increased astronomically, especially in developing countries, following the implementation of pandemic-related fiscal stimulus packages and accommodative monetary policies to moderate the adverse effects of the pandemic. Third, the pandemic protocols of physical distancing rules and virtual interactions provided an added impetus to the adoption of digital technologies.

5. Madam Chairperson, it has been argued that in the face of these challenges, Africa can speed up its economic recovery by focusing on regional integration, infrastructural development, and targeted digitisation. This brings to light the relevance and timeliness of this ongoing Forum on the African Continental Free Trade Area: Challenges and Prospects.

What are the objectives of and expected benefits from AfCFTA?



- 6.** Broadly, AfCFTA aims to eliminate or reduce tariff and non-tariff barriers among the 54 African countries to speed up intra-African trade and improve Africa's trade performance in the global market. There is a view that African countries can only be competitive globally if they are competitive regionally. Therefore, AfCFTA by the creation of single large market for goods and services, creates opportunities to promote industrial development through diversification and regional value chain development. The Agreement is expected to enhance diversification of industrial products, develop regional value chains, and facilitate regional integration as well as cross border payments.
- 7.** Regarding the expected benefits, AfCFTA, with its continent-wide vantage point and enhancing competition, provides opportunity for Africa to competitively integrate into the global economy, reduce poverty and promote economic inclusion. The World Bank, for instance, estimates that implementation of AfCFTA would provide impetus for lifting an additional 30 million Africans from extreme



poverty and 60 million from moderate poverty. Real income could also increase by 7 percent or almost US\$450 billion and there would be a boost in African trade, especially intraregional trade in manufacturing. The volume of total exports is projected to increase by nearly 29 percent by 2035. Intra-African exports are also estimated to increase by almost 81 percent, while exports to non-African countries are expected to increase by 19 percent.

The Role of Payment and Settlement Systems in Boosting AfCFTA

8. Madam Chairperson, an efficient and resilient payment and settlement systems infrastructure is fundamental to the promotion of intra-African trade. A supportive payment and settlement system can be used as a strategic tool to enhance and facilitate the African regional integration drive, increase competitiveness, and improve Africa's position in the international financial system. A strong and well-regulated African financial infrastructure could deepen the benefits of intra-regional trade, eliminate use of third currency for



settlement, improve liquidity management of firms, and reduce transaction costs.

9. Beyond the improved speed and lowering of cost of transactions, an integrated African payment and settlement systems would support AfCFTA by mitigating risks associated with intra-African trade payments and facilitate efficient functioning of African financial markets. A safe, reliable and efficient national and cross-border payments system would, therefore, support African regional trade, foster development and promote financial stability. Thus, to boost intra-African trade within AfCFTA, there is the need to invest in robust payment and settlement system infrastructure.

10. Over the last two decades, Ghana's payment system has transformed, underpinned by innovation, competition, and digitalisation. The journey started in 2002 with major changes in the payment ecosystem. First, the Real Time Gross Settlement System was launched, which provided the platform for financial institutions to undertake real time wholesale electronic transfer of funds. Next,



the Bank facilitated the passage of the now-repealed Payment Systems Act 2003 (Act 662), which established the Ghana Interbank Payment and Settlement Systems (GHIPSS) that ushered in the retail electronic payment community.

11. Since then, Madam Chairperson, there have been significant changes to the payment system landscape, with the introduction of the National Switch, Cheque Codeline Clearing (CCC) and Automated Clearing House (GACH) systems, Biometric Smart Card System, the e-zwich, Ghana Instant Pay (GIP), and the passage of the Payment Systems and Services Act 2019 (Act 987), which paved way for the non-banking sector, including financial technology firms, to operate in the payment ecosystem. The mobile money sector has witnessed tremendous growth and continues to support financial inclusion due to its convenience in terms of facilitating funds transfer, utility and bills payments, as well as remittance transfers.



12. The Bank's strategy for payment systems development over the years is to foster competition among industry players with the view to drive innovation, competition, and provide consumers with choice at lower cost of transactions. An example of this is the Bank's bold step to bring financial technology firms (FinTechs) under its regulatory purview. This singular policy decision has led to expansion in digital financial services and helped bring the unbanked into the formal financial system.

13. Distinguished Ladies and Gentlemen, notwithstanding the maturity of the national payment system, however, transactions between Ghana and other African countries may have to go first to a third country, which is not likely to be based on the African continent. These movement of funds and settlement processes involving banks that are outside Africa raises the transaction costs for cross-border payments. For instance, data from Society for Worldwide Interbank Financial Telecommunications (SWIFT) show that 48 percent of Africa settlement processes occur in countries outside Africa, and the



U.S. Dollar remains the dominant trade currency. Crossborder payments are slow, can be expensive and opaque. We find banks having to use correspondent relationships outside Africa to get funds from a payer to a payee on the continent. This leads to high transaction costs for trade in Africa including transfer fees, bank charges and SWIFT charges.

Regional Payment System Initiatives

14. Faced with such correspondent banking challenges and to ease intra-regional trade, African economies have pursued various regional integration initiatives to lower cross border payment costs. These include initiatives to introduce either a common currency or a common payment platform to foster intra-regional trades.

15. Starting off in 2004, the West African Economic and Monetary Union (WAEMU)/Union Economique et Monetaire Ouest Africaine (UEMOA) launched a regional gross settlement system. The STAR-UEMOA connects direct participants through the SWIFT network or the



private network of the BCEAO. Participants in the system include financial institutions, the Central Depository, the WAEMU interbank electronic banking group (GIM-UEMOA) and the West African Development Bank (WADB/BOAD).

16. In the regional groupings, the Southern African Development Community (SADC) region dominates Africa's regional payment systems in terms of transaction volumes. The SADC integrated Regional Electronic Settlement System (SIRESS), now SADC-RTGS, was developed in 2013 to facilitate funds transfers for cross border payments among SADC countries to promote trade within the region. This process eliminated the need for correspondent banks and lowered transaction costs. Currently, all the sixteen (16) countries, except Comoros, have joined the SADC-RTGS. The SADC Banking Association in collaboration with Bank serve Africa (Pty), as part of the SADC payment integration roadmap, has also developed a low-value cross-border payment solution for the SADC region. Participants within this platform include central banks and authorised



banks and non-banks. Since its inception in 2013, the SADC-RTGS has processed 2.2 million transactions or R8.56billion (US\$568 million) in total value of transactions as at September 2021.

17. Again in 2014, the East African Community Payment and Settlement System (EAPS) integration project was launched. The overall objective of this project was to create a robust integrated regional wholesale and retail payment and settlement system to improve the efficiency of cross-border payments. Transactions are carried out and settled in the EAC local currencies through their linked Real Time Gross Settlement Systems and by holding reciprocal bilateral accounts with each central bank. The system also requires commercial banks to prefund payments with deposits at the central banks.

18. Another key development is the Regional Payment and Settlement System (REPSS) of the Common Market for Eastern and Southern Africa (COMESA) that offers a choice of payment in either Euros or



US Dollars. However, the REPSS has been rarely used for wholesale or trade transactions since inception. The volumes of transactions settled through the EAPS and REPSS cross border payment systems remain low. For instance, Kenya, which participated in both REPSS and EAPS in 2018, recorded volumes of 18,307 EAPS and 620 REPSS transactions valued at US\$680 million and US\$43 million equivalent, respectively.

19. In advancing the development of cross border payments, the West Africa Monetary Zone (WAMZ) in 2013 initiated the ECOWAS Payment and Settlement System (EPSS) project as part of the major component for the launch of the Eco. With the support of the Afreximbank, the six (6) central banks in the West African Monetary Zone (WAMZ) in 2022 linked their RTGS with the broad objective of facilitating cross border payments that are initiated in the payer's local currency and received by the beneficiary in local currency in real time. The resulting interbank obligation would be settled at the end of the operating day on net basis in US Dollars.



Africa Continental Payment System Initiative

20. Madam Chairperson, the Afreximbank initiative, the Pan African Payment and Settlement System (PAPSS), which started in the WAMZ, is expected to be rolled out as a continent-wide payments system infrastructure. It is expected to facilitate remittances, offer securities settlement and provide opportunity for Point of Sales and Automated Teller Machine transactions. Direct participants of the PAPSS are the national central banks and regulated financial institutions, as well as payment service providers.

21. At present, PAPSS has undertaken successful integration from test and development environment to production environment for all the six (6) countries of the WAMZ, namely Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. Ghana, Nigeria and Gambia have successfully carried out controlled live transactions. Nigeria sent and received daily transactions to and from Ghana and Gambia successfully, while Ghana and Gambia also sent and received daily



transactions to and from Nigeria successfully. The time taken to complete an end-to-end transaction using the instant payment system was established to be on average 7 seconds out of the 120 seconds allocated for a complete transaction.

22. Cross border payment systems are not easy to implement. First cross border governance arrangements differ. Secondly laws across different jurisdictions may differ and multiple AML CFT regimes including KYC requirements can become a challenge. To ensure there is a single source of primary data for conduct of customer due diligence on African entities, financial institutions, corporates and small-to-medium enterprises, Afreximbank has also set up a MANSA Repository Platform (named after Mansa Moussa, emperor of the Malian empire from 1823 to 1825). It is the first digital Customer Due Diligence platform of its kind in Africa, conceived and developed to address compliance issues in Africa, promote data quality and coverage in Africa, to minimise the difficulties faced by African entities in accessing funds from the international banks. Beyond the



minimisation of the difficulties African entities faced in accessing funds, the platform is expected to reduce compliance cost, facilitate intra-African trade and serve as an African Investment hub.

Challenges of Payments System Development in Africa

23. While the integration of sub-regional/zonal payment systems has translated into some progress in Africa's cross-border payment journey, it has also faced some challenges. The size of national markets, limited opportunities to create economies of scale and enormous gap between the reality on the ground and the aspirations stipulated in formal integration arrangements have not inured to promotion of intra-regional trade among these regional blocs.

24. The Economic Community of Central African States (ECCAC), for instance, has the least intra-regional trade of less than 2 percent followed by the Arab Maghreb Union at 4 percent. Common Market for Eastern and Southern Africa (CMEAC) and Economic Community of West African States (ECOWAS) intra-regional trades are estimated



at 16 percent each. Intra-regional trade among member countries of the Southern African Development Community (SADC) is estimated at 20 percent. The low level of intra-African trade is also attributed to lack of diversification on account of over concentration on similar primary commodities, lack of value addition, non-inclusion of informal sector trade, as well as lack of regional financial infrastructure.

25. Further, integration of payment systems at a regional and continental level is hampered by the fact that member countries are at different payment settlement systems levels, with sometimes distinct priorities – differing economic policies, limited payments regulatory framework, disparate IT infrastructure, and limited cross-border payments exposure – and without harmonized standards and regulations in the various jurisdictions. Also, legacy and proprietary systems are inefficient and costly on account of time and resources required to promote interoperability and maintain these disparate systems. Furthermore, the inability to link even developed national



payment infrastructures within the various regional economic communities remains a drag on cross-border payment infrastructure development in Africa.

26. Indeed, most African countries have fairly developed domestic payment infrastructure such as Real Time Gross Settlement Systems, National Switches, Cheque Codeline Transaction Systems, vibrant payment system with emerging and nascent financial technology firms, as well as vibrant mobile money sectors. Interestingly, these national payment systems are not linked to other national payment infrastructure to facilitate cross-border payments and, therefore, do not support regional trade.

The Way Forward

27. While the future for AfCFTA looks promising, the barriers to cross-border payments including cost, speed, access and transparency need to be addressed in a collective manner. The Financial Stability



Board in October 2020 recommended the following measures for enhancing cross border payments:

- First, Africa needs to improve on the existing payment infrastructures and arrangements to support the requirements of cross-border payments. Technical and operational improvements to existing domestic and regional payment infrastructures that facilitate cross border payment need to be continuously made.
- Second, the various regional payment systems, (including SADC-RTGS, PAPSS, REPSS, STAR-UEMOA, GIM-UEMOA and SIRESS) need to be integrated to enable each system to communicate with the others. Resolution of these issues would enable frictions culminating from different operating hours, high transactions cost, weak competition and access regimes to be addressed.



- Third, commitment to a joint public and private sector vision to enhance cross border payments is an important strategy that could help Africa realise the true economic potential of AfCFTA. A common vision and agreed targets could encourage market participants and policymakers to work together to enhance cross-border payments; and
- Lastly, the harmonisation of regulations, supervision and oversight frameworks could also mitigate challenges stemming from multi-jurisdictional nature of cross-border payments. For instance, to enhance data quality and straight through processing, common message formats, including conversion and mapping from legacy formats and use common protocols for data exchange, should be adopted.

28. Indeed, given the right policies, Africa's collective efforts at integrating existing national payment systems could enable African firms to innovate, invest, and create job opportunities. Together with



digitalisation, an integrated payment system would help Africa foster convergence of institutional frameworks and create a more effective regional financing ecosystem. Additionally, an integrated payment and settlement system would promote efficiency in regional trade by facilitating smooth flow of payments, underpinning economic activity and fostering transparency and efficiency in intra-African trade.

Conclusion

29. Madam Chairperson, Council Members, Fellows, Distinguished Ladies and Gentlemen, in conclusion, let me emphasise that payment and settlement system is critical for enhancing intra-African trade and investment, the key objective of AfCFTA. Through the Association of African Central Banks working groups on payment system, the Bank of Ghana is collaborating with other central banks to provide common solutions to the various challenges confronting payment system development in Africa. Collectively, we are working to deliver an integrated and interoperable continental payment system by linking all the regional payment systems, leveraging on the PAPSS



Connectivity, to enhance the power of digital payment for value creation. I wish to thank the Academy once again for offering me the platform to share my views on this important topic.

Thank you.

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