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Africa Payments: Insights into African transaction flows

FOREWORD

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‘Africa is rising’ is a powerful phrase these days. Indeed, Africa has a youthful population and growing middle class which the AfDB projects will spend more than \$1 trillion by 2020 – up from \$680 million in 2008. The rising middle class will undoubtedly help to drive up demand for consumer goods, creating the business case for African firms to upgrade their production processes and expand their businesses. We already see glimpses of this occurring: value-added goods account for an increasing share of intra-Africa exports, versus primary goods for extra-Africa exports.

The AfDB estimates that in 2010, 16% of Africa’s exports were directed to other African states – higher than the 12% figure most often cited. Moreover, at \$57 billion, intra-Africa exports are not insignificant. What is also encouraging is that in the period 2000-2010, exports leaving Africa grew at only two-thirds the rate of intra-African exports. Challenges remain, including continued efforts to remove non-tariff barriers, such as delays along transit routes and borders; reducing transaction costs for cross-border payments; reducing high energy costs; and eliminating rent-seeking activities and restrictive domestic policies. Addressing these will improve the competitiveness and productive capacity of African firms.

Africa’s economic integration agenda is on-going and the majority of the continent’s 54 countries belong to one or more of the Regional Economic Communities (RECs) that is pursuing either a free trade area or customs union. At the 2012 African Union Summit, African heads of state endorsed the Continental Free Trade Area (CFTA) – expected to be in place by 2017 – with the goal of increasing intra-African trade to 25% of total trade in the next decade.

However, as Africa pursues deeper economic integration, facilitation of payments across borders and integration of financial markets can no longer be ignored. Transaction costs remain high, at least partly because a large proportion of settlement processes – 48% – within Africa involve banks outside of Africa. This impacts the productive capacity of African firms.

This report also shows that 39% of Africa’s financial flows go to the United States, even though it accounts for only 9% of commercial flows. As we put renewed focus on industrial and value chain development across the continent in order to boost the efficiency and profitability of African trade, it is imperative that we address the economic costs of settling so many payments in dollars. Making cross-border payments easier, cheaper and safer is an important part of the trade story and an obvious step towards boosting trade.

Today, Africa’s financial markets remain weak and rudimentary, focusing only on retail; building a strong intermediary sector is crucial for stronger financial markets. Given the presence of at least 800 commercial financial institutions in Africa, the next step will be to assist banks, particularly domestic banks, to develop the capacity to become confirming and corresponding banks so that we can lower costs.

The AfDB, through its trade finance programme, will focus on strengthening the capacity of domestic banks to meet international standards as a way to provide affordable finance for small and medium enterprises. With the improved legal and regulatory reform, as well as cross-border payment systems and technological innovation, the trade finance programme could have positive effects both on recipients and levels of African imports and exports.

Continuing Africa’s structural transformation will be crucial in order to extend the continent’s growth story and promote inclusive growth. Along with driving forward integration, focus must also be on deepening the financial sector.

As its cross-border markets expand, understanding the movement of goods and money remains important. Such trade data has the potential to identify key trends and highlight possible drivers for change. This helps to bring clarity and understanding to the marketplace. As such, papers like this one play an important role in promoting debate.

Executive summary

Economic and demographic data demonstrate how fast Africa is growing – and how much further potential there is for this vibrant continent. According to UN Conference on Trade & Development (UNCTAD) data, between 2000 and 2011, Africa’s exports almost quadrupled in value, from USD148.6 billion to USD581.8 billion a year. But the shift in where those exports are going is even more startling. UNCTAD figures reveal two clear trends: the falling share of Africa’s exports going to the mature markets of the US and Europe and the rising share of trade going to emerging economies, particularly to Asia and specifically to China.

Boosting trade both within and outside Africa is a key goal of policy makers across the continent. Understanding Africa’s trade flows in terms of scale and composition, therefore, will be crucial in determining the right policies and processes to support further growth. This report uses SWIFT’s unique data to map trade flows against financial flows for the first time, revealing a new perspective on Africa’s transaction flows. The report also identifies potential drivers for change and their impact on banks doing business in Africa and with Africa.

This paper makes three key observations:

➤ **Current financial flows do not reflect the magnitude of commercial flows between African countries and Asia Pacific.**

Whilst 22% of the commercial payments from Africa will end up in Asia Pacific, only 5% of the financial flows go directly to that region. Meanwhile, banks in North America receive almost 40% of the payments sent by Africa, versus only 9% of the commercial flows. A total of 48% of intra-African import/export settlement involves intermediation by a bank outside of Africa.

➤ **The US dollar prevails as the dominant trade currency and the EUR is rarely used for transactions with clients that are not based in the Eurozone.**

Almost 50% of commercial payments sent from Africa are denominated in USD. At the same time, more than 80% of the dollar transactions sent from Africa to the US have their financial beneficiary in another region. Conversely, only 15% of euro payments from Africa are eventually transferred outside of the Eurozone.

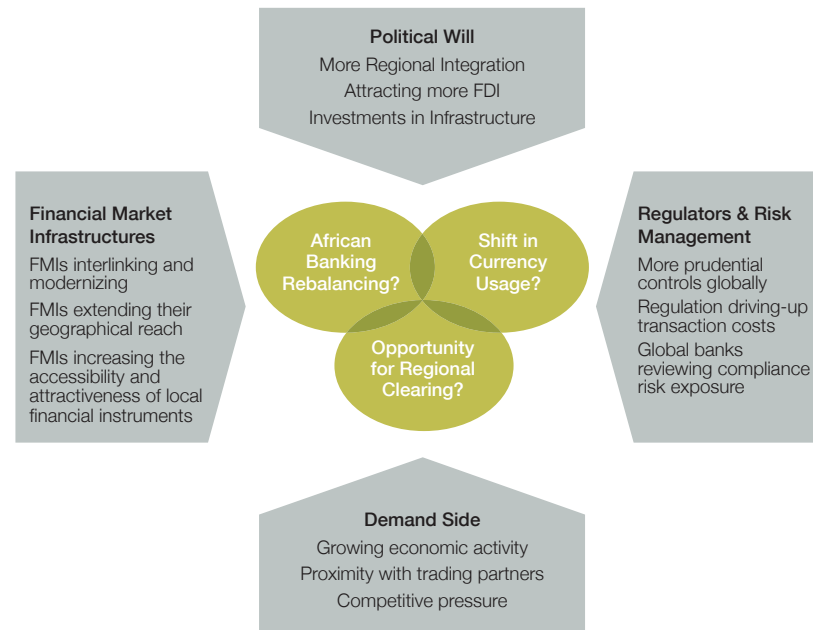
➤ **The relative importance of US dollar clearing banks has increased in the past 10 years.**

Contrary to what may have been expected, the market share of USD clearing banks has grown rather than diminished in the past decade – rising from just under 25% to almost 40% – even while trade with Asia

has increased at the expense of trade with the US. Part of this may be attributed to flows with Asia that are denominated in USD and are intermediated by banks in the United States.

However, we also see several environmental factors that may drive change in cross-border transaction flows. This could potentially lead to a reshaping of pan-African banking, shifts in currency usage and the opportunity for multi-currency regional clearing in Africa.

Key forces driving change



➤ **Political will to regionalise, raise FDI attractiveness and foster more intra-Africa trade.**

The AfDB estimates intra-Africa trade accounts for 16% of total trade, versus 70% between European countries. SWIFT figures point to intra-African trade accounting for 23% of the continent’s total; two possible explanations for this difference could be that SWIFT data, based on actual payment traffic, captures a larger proportion of the “grey” economy than other measures, and the SWIFT data that we use for this report are based on volume [and not value]. Boosting intra-African trade still further is important, as it has huge potential to create employment, be a catalyst for investment and to boost growth in Africa. As a result, political backing for regional integration projects that support these aims is likely to impact transaction flows.

➤ **The demand side of the African market is expanding and evolving.**

Corporates are the primary driver of cross-border transactions. As they expand across and out of Africa, their needs will evolve. This will lead to demand for new products and services, and deeper relationships with banks in key markets.

➤ **International regulatory pressures also impact cross-border transactions.**

New regulations are making it increasingly expensive for banks in the United States and Europe to do business with small and unknown counterparties. Unless banks are able to prove their KYC (Know your customer) and anti-money laundering processes comply with the toughest requirements, they may lose business or even find they have restricted access to the dollar. SWIFT data shows that American and European banks have already shrunk their African banking network. This opens the way for larger African transaction banks to position themselves as a gateway to other markets in Africa.

➤ **Financial market infrastructures modernising.**

African countries are investing in financial markets infrastructures (FMIs), many at a regional level. Policy makers recognise that payment systems and other infrastructures play a huge role in fostering and deepening economic development. FMIs provide more certainty and greater efficiency in transaction processing. Along with harmonised legal and regulatory frameworks, robust regional FMIs will make intra-region payments more competitive and reduce the need for foreign financial intermediation.

The SWIFT data in this report underscores the importance of trade corridors between Africa and Asia Pacific and reveals higher than expected intra-Africa volumes. It also confirms a disconnect between some commercial and financial flows, and highlights the continued dominance of the dollar. Regional integration initiatives as they mature are likely to contribute and impact those flows. These initiatives and the environmental factors identified have the potential to shape significant change in banking on this vast continent. This report concludes that there will be no revolution in the transaction banking landscape in Africa but rather an evolution towards fewer but larger pan-African banks and a gradual pressure to adapt to new dynamics in the currency environment. The scenarios discussed will be driven by macro-economic and political forces – yet, commercial banks, regulators and other actors in the African financial industry must watch carefully the evolution of transaction flows in order to anticipate market shifts.

Introduction

The sustained growth of African economies is well reflected in SWIFT payments volumes. A deeper-dive analysis of transaction flows originating from different African economic regions also shows the growing importance of intra-African trade. The USD and EUR remain the predominant base currencies for settling cross-border trade – but increasing and renewed pressure from political and economic drivers are challenging that status quo. What does this mean for cross-border banking in Africa?

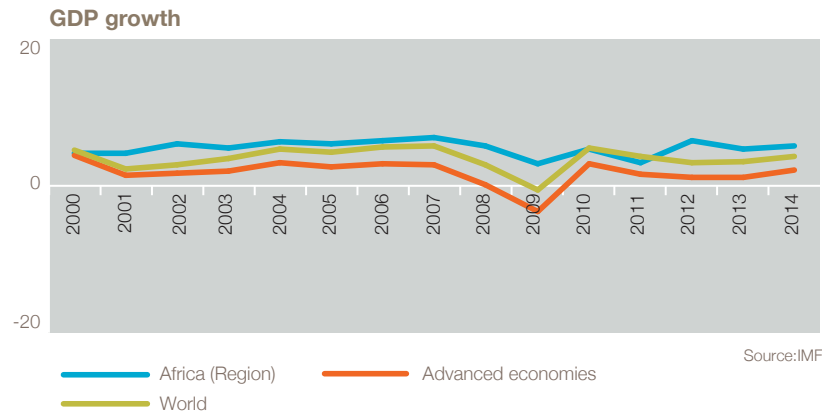
This paper will attempt to frame the cross-border banking context in the midst of regionalisation initiatives, international regulatory pressures, and the reconfiguration of the trading corridors. Supported by some unique market data on payment routes, we are exploring what are the possible evolution scenarios that will impact banking in Africa.

Economic context

The financial and economic crisis in advanced economies combined with a robust growth in Africa has led many to look at the continent as an interesting investment opportunity.

Africa's year-on-year gross domestic product (GDP) growth has repeatedly outperformed total world growth and that of advanced economies in the past ten years.¹

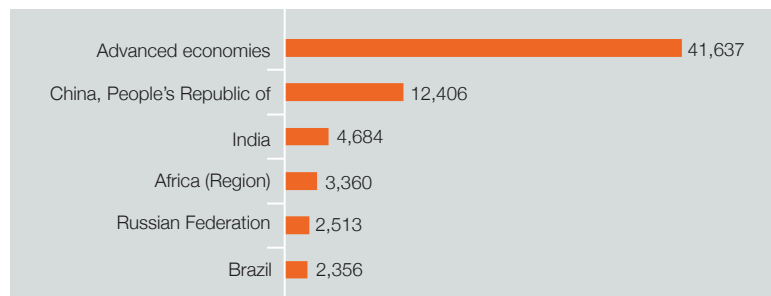
That said, the size of the African economy remains ten times smaller than advanced economies and around four times smaller than China. Amongst the BRIC countries, Africa's total GDP as a region would rank third, between India and Russia.



Natural resources remain the biggest contributor to African growth but the continent's economic vibrancy is increasingly supported by other flourishing sectors such as telecommunications, banking, retail and construction. The future also looks promising with a fast growing population and burgeoning middle

class, more, sophisticated infrastructure, and investments rising. Foreign direct investment (FDI) is pouring capital into the region, with Africa representing 5.6% of the global FDI in 2012 compared to 3.5% in 2003.² In terms of where new projects are being launched, the financial sector leads by a large measure.³

GDP in 2012 based on PPP
(Billions of current international dollars)



¹ Advanced economies : Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Korea, Republic of, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, San Marino, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Taiwan Province of China, United Kingdom, United States

² Africa attractiveness Survey 2013, Ernst and Young

³ Africa attractiveness Survey 2013, Ernst and Young

Africa's relationship with the rest of the world is also changing. While OECD countries remain critical economic and political counterparts, non OECD countries have become more and more important as trading partners. For example, the share of non-OECD countries in African trade has risen from 26% in 2000 to 39% in 2009, whilst exports to the US and Europe, meanwhile, are falling (from 17% to 10%, and from 47% to 33%, respectively).⁴

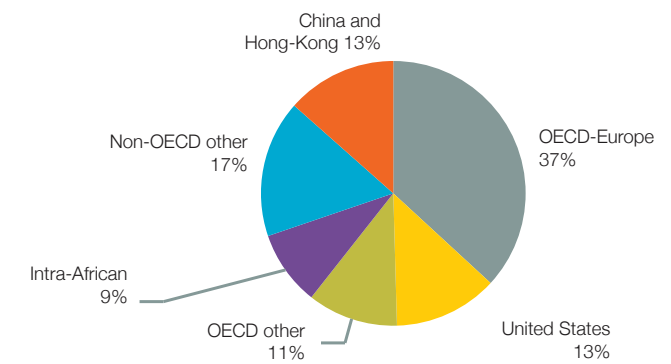
Intra-African trade, however, is smaller than that between Africa and China and Hong-Kong.⁵ Africa's exports to China are dominated by mineral fuel and raw materials (more than 80% of all exports), and its imports are mostly machinery and intermediary manufactured goods from China (more than 70%).⁶

The environment is also changing within Africa. Several regionalization projects are reshaping the political, economic and financial landscape. In addition to promoting peace and stability, these initiatives aim to boost intra-African trade by removing the obstacles to do business and by harmonising rules and regulations between African countries.

All of these changes imply that decision makers and businesses in Africa and outside of the continent will need to adapt to a new environment.

This paper takes an in-depth look at the impact of these trends on the financial industry and asks what insights Africa's transaction flows can offer about the nature of future growth and development.

Africa trade partners in 2009



The new world of transaction flows in Africa

Our approach

This paper considers transaction flows based on cross-border commercial payments, because these mirror actual trade flows and generate associated financial flows.

Two types of transaction flows can be differentiated: commercial flows and financial flows. Commercial flows refer to the payment instruction sent by the bank of a client A, typically a corporate, to the bank of a client B for the import of goods or services. These flows are measured based on the commercial payments sent by banks from Africa to the country where the end-beneficiary is situated.

Financial flows represent the payment route used for the settlement of the transaction. They are measured based on the number of commercial payments sent by banks from Africa to the country of the counterparty bank.

⁴ UN Conference on Trade & Development (UNCTAD) figures, 2012.

⁵ OECD Factbook 2011-2012: Economic, Environmental and Social Statistics

⁶ UN Comtrade, 2009

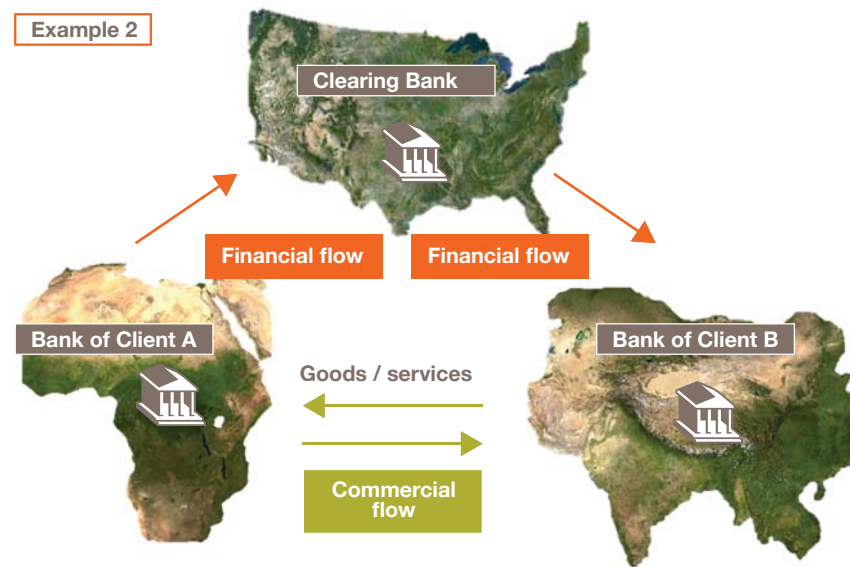
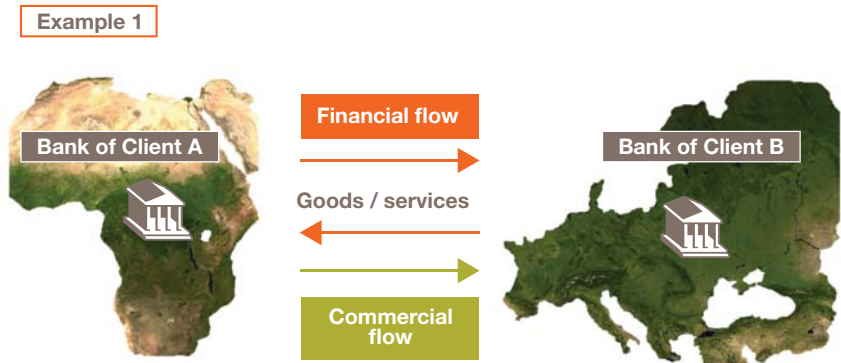
Commercial and financial flows can mirror each other – see example 1 with an African import from Europe where the payment is directly routed to a European bank, or show a disconnect – see example 2 with an African import from Asia intermediated by a clearing bank in the United States.

Transaction flows are measured based on customer credit transfers (called MT103 SWIFT messages) executed on the SWIFT network. The statistics in this paper provide a very accurate picture of transaction flows because cross-border commercial payments are rarely routed outside of the SWIFT network.

SWIFT connects more than 10,000 financial institutions and the corporations in 212 countries and provides the proprietary communications platform, products and services that allow its customers to connect and exchange financial information securely and reliably. SWIFT is widely recognised as the trusted financial telecommunication service provider for the payments clearing market, and provides messaging services for more than 90 domestic and international payments clearing systems worldwide, covering 2,000+ banks in 90+ countries.

SWIFT presence in the African region is growing rapidly, as shown with the number of high-value payment (HVP) and low-value payment (LVP) systems using SWIFT. In addition, there are several countries and regional initiatives currently under implementation that are expected to go into production in 2013.

This paper discusses the current situation in Africa and takes a closer look at the different regional initiatives. We will explain the drivers for a potential reshaping of transaction flows in Africa. The main assumption of this paper is that we may see more direct financial flows between African countries and with Asian counterparties. Finally, we will elaborate on the impact of this new map of transaction flows for African and non-African banks.



Payments Market Infrastructures Systems live on SWIFT

Angola	Egypt	SIRESS (ZA)
Algeria	The Gambia	South Africa
Botswana	Ghana	Swaziland
Central African States (BEAC)	Kenya	Tanzania
COMESA	Lesotho	Tunisia
East African Payment System (EAPS)	Mauritius	Uganda
	Morocco	Zambia
	Namibia	Zimbabwe
	Sierra Leone	West African States (BCEAO)
Status	August 2013	
Both HVP and LVP MI	3	
HVP MI only	21	

Current situation

Economic growth in Africa is represented by transaction flows on the SWIFT network. With the exception of 2009, transaction flows sent by banks in Africa have shown a year-on-year growth of around 10%.

Transaction flows in Africa today can be summarized in three observations:

1) **Financial flows do not reflect the magnitude of commercial flows between Africa and the Asia Pacific region.**

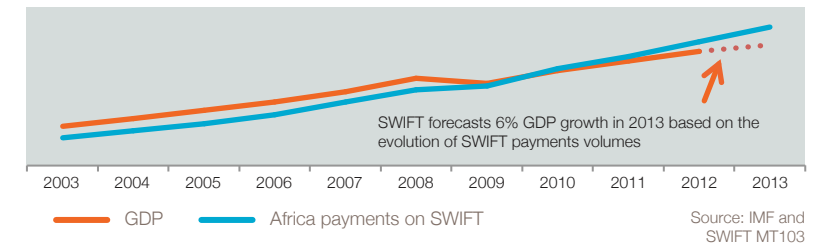
SWIFT data shows that African commercial flows are largely directed to clients based in Europe, Africa and Asia Pacific. Payment volumes between Africa and Asia Pacific and intra-Africa account for 45% of all flows.⁷

Drilling down within the regional flow, just five countries – France, the United Kingdom, China, the United States and South Africa – represent more than 40% of volume.

Financial flows, by contrast, are dominated by payments to North America, followed by smaller volumes to Europe and Africa. Banks in North America (mainly the United States) receive 39% of the payments sent by Africa, but only 9% of the commercial flows. Banks in Asia Pacific, meanwhile, receive only 5% of the financial flows, even while 22% of the commercial flows are destined for the region.

This divergence is explained by the strong use of the USD by African banks (almost 50% of cross-border flows) and intermediation of financial flows by US dollar clearing banks in the United States.

Evolution of GDP compared to SWIFT payments volumes

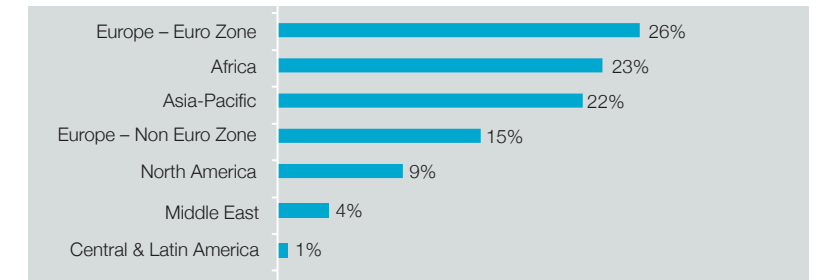


2) **The USD remains the dominant trade currency and the EUR is rarely used for transactions with clients that are not based in the Eurozone.**

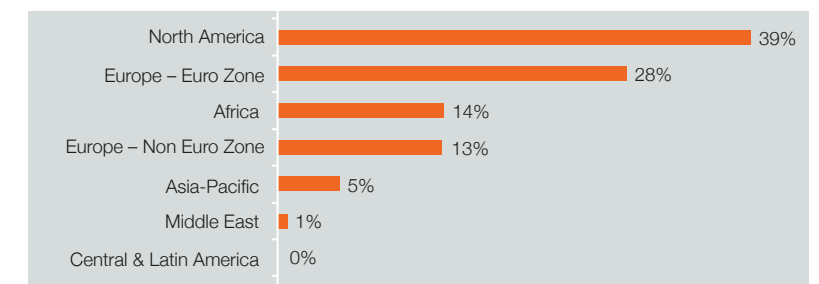
More than 80% of the transactions sent from Africa to the United States have their final beneficiary in another region. The three main regions where the payment will eventually be transferred are: Asia Pacific (42%), Africa (17%) and Europe non Eurozone (10%). This highlights the intermediation role of USD clearing banks.

The picture is different for EUR flows, where only 15% of the payments are eventually transferred outside of the eurozone. Hence, volumes captured by EUR clearing banks directly depend on the trade activity between Africa and eurozone countries.

Region of commercial counterparty: where are commercial payments going to?



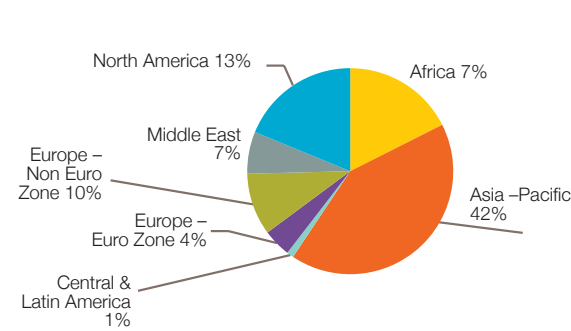
Region of financial counterparty: through which route are commercial payments going?



Source: SWIFT (number of cross-border MT103 sent from Africa to counterparty region in April 2013)

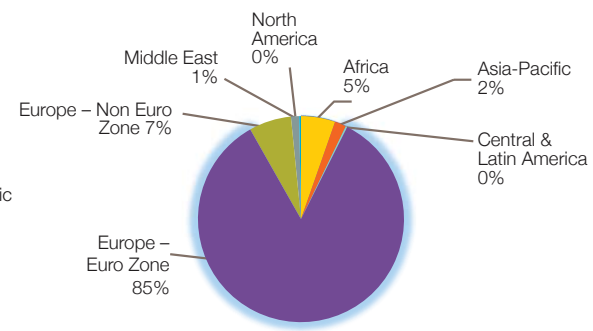
⁷ These figures are based on the number of transactions for one month of data in 2013, hence a potential difference with the trade flows computed by international organizations.

End destination of USD denominated commercial payments received by banks in the United States



Source: SWIFT (number of cross-border MT103 sent from Africa to USA in USD in April 2013)

End destination of EUR denominated commercial payments received by banks in eurozone



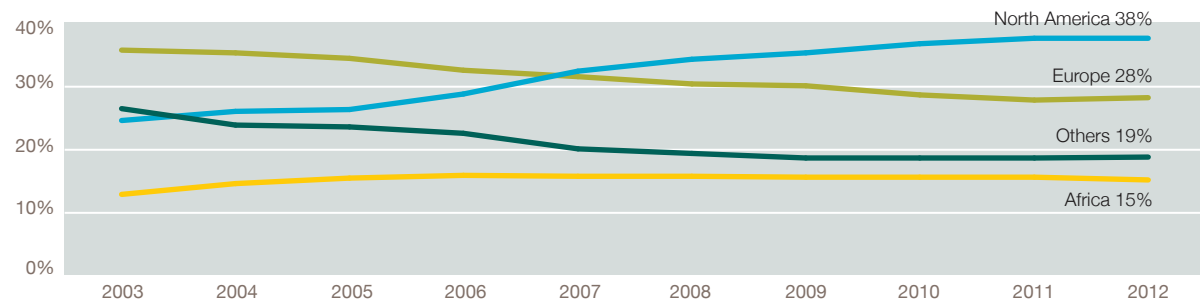
Source: SWIFT (number of cross-border MT103 sent from Africa to eurozone in EUR in April 2013)

3) The relative importance of US dollar clearing banks has increased in the past 10 years

The increase in the share of African financial flows directed to North America (predominantly the United States) illustrates this trend. An important part of this growth can be attributed to the emergence of trade flows with Asian countries that are denominated in USD and intermediated by banks in the United States. The decline in the share of trade between Africa and Europe also created more room for USD-denominated transactions.

This paper investigates whether this trend is likely to change in the future, with more direct flows to other African countries (15% in 2012) and banks outside Europe or America (19% in 2012).

Share of financial flows sent from Africa to counterparty regions



Source: SWIFT (number of cross-border MT103 sent from Africa to counterparty region)

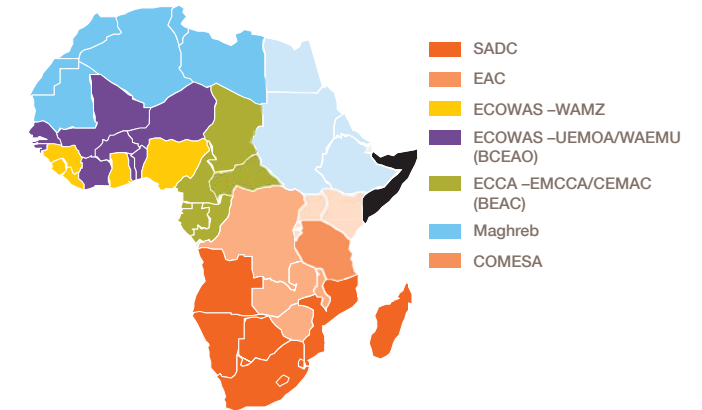
Regional initiatives in Africa

Africa is comprised of 54 countries with disparate economies. There is significant political support for regional integration initiatives as a means to create employment, act as a catalyst for investment and foster growth in Africa. Some of these involve a high degree of integration and a common currency (ECOWAS-UEMOA/WAEMU and ECCAS-EMCCA/CEMAC); some are pushing forward (SADC), while others are rather inactive (Maghreb).

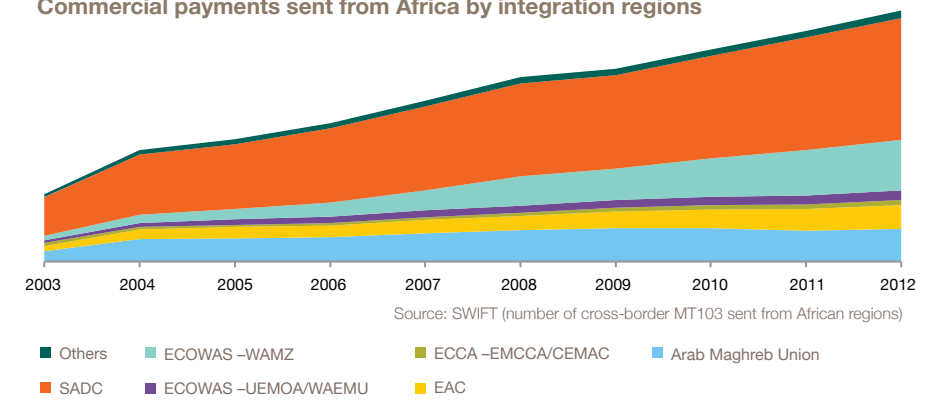
In terms of transaction volumes, the SADC region dominates the African continent thanks to the large contribution of South Africa. However, other regional unions are showing increasingly strong growth. Volumes in ECOWAS - WAMZ, for example, have grown more than 800% in 10 years. In 2013, the combined volumes of outgoing transaction flows from Nigeria and Ghana represent the same share of total African flows as those of South Africa (18%).

The table below provides an overview of the commercial flows sent from the different African regions and the currency usage (split between the USD, euro, rand and 'other' currencies). ECOWAS - WAMZ and EAC are both notable by the large proportion of USD transactions (80% and 69%, respectively), whilst ECOWAS - WAEMU/UEMOA sends only 10% of its transactions in USD. ECOWAS - WAEMU/UEMOA has sizable intra-Africa transaction flows especially between three large Member States (Senegal, Côte d'Ivoire and Mali). This, together with a cross-border RTGS for the region, explains that more than half of payments are denominated in the local currency (XOF). France, Germany and The Netherlands are also important trade partners, which drives up the EUR flows. WAMZ, however, transacts mainly with Asia Pacific and North America. This reflects the fact that China and the United States are the main import partners for the two largest economies in the WAMZ region, Nigeria and Ghana, leading to a high proportion of USD flows.

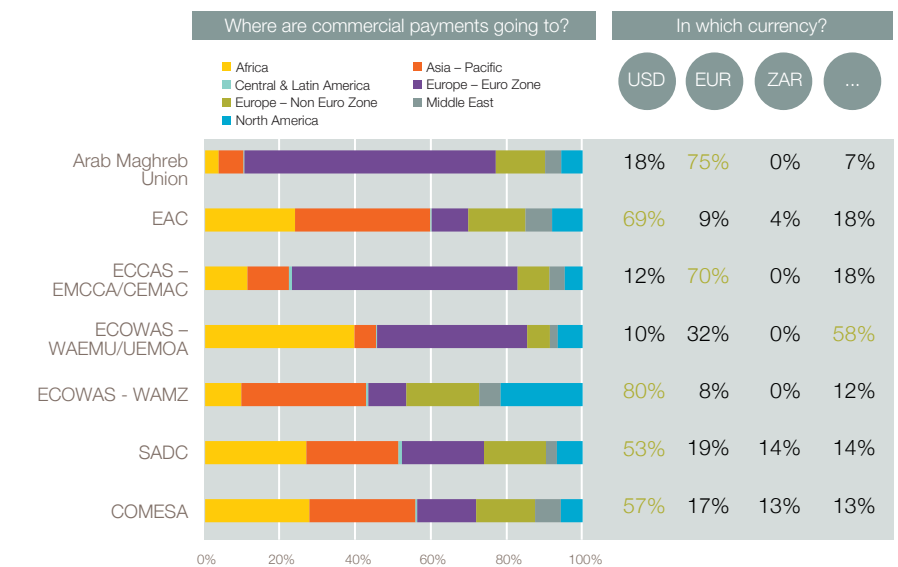
African regions



Commercial payments sent from Africa by integration regions



Source: SWIFT (number of cross-border MT103 sent from African regions)



Source: SWIFT (number of cross-border MT103 sent from Africa to end-beneficiary country/region in April 2013)

Source: SWIFT (number of cross-border MT103 sent from Africa in 2012)

Regional Financial Integration – a catalyst for change

Leina Gabaraane, *Chairman, SADC Banking Association*

Twelve countries in the SADC region have been actively working on introducing a number of regional payment schemes aimed at improving payment processes in order to support increased, trade, tourism and investment within the region.

These payment schemes, by their nature, are bringing about many changes in the way banks in SADC process cross-border transactions in the region. The infrastructures that are being implemented will mean that certain payment instruments currently used, such as cheques, will be eliminated. In other cases payment processes will be streamlined which means they will be faster and more cost effective and address some of the risks inherent in the current payment methods. Other changes are aimed at making it easier for the non-banked population in SADC to benefit from the technologies that can be deployed to suit their needs.

The journey so far

The SADC Banking Association became actively involved in the SADC Payments Project some two and a half years ago and has worked very closely with the Central Bank team appointed by the Committee of Central bank Governors in SADC (CCBG). This joint initiative has culminated in the first payment scheme going into production on 22 July this

year, i.e. Credit Transfers with Immediate Settlement. This scheme is being piloted in the 4 Common Monetary Area countries in SADC (CMA), i.e. Lesotho, Namibia, South Africa and Swaziland.

This payment scheme allows banks in SADC to remit payments to each other which are settled immediately through the Real Time Gross Settlement System known as SIRESS – SADC Integrated Regional Electronic Settlement System.

This allows banks to maintain their correspondent banking relationships but eliminates any inter-bank settlement risk in intra-SADC cross-border payments.

The next phase for this payment scheme is to bring the non-CMA countries into production. A number of non-CMA countries have undertaken testing of the system and they will be scheduled for production once a number of other regulatory and technical matters have been completed.

The introduction of SIRESS has also allowed commercial banks in the CMA region to stop the practice of allowing their clients to use current account cheques as a means of cross-border payments. Commercial banks in the other area of SADC have taken this a step further and have stopped issuing drafts drawn in rand and are offering their clients alternative electronic or card-based payments.

Next phases

Clearly the work has just begun; other payment schemes are progressing at a pace and will be introduced once all the details have been worked through. These schemes will include low-value credit transfers, direct debits, card based payments and the cash leg of settlements of any stock market trades and public debt securities.

These schemes will aim to achieve the following: make low-value cross-border payments as efficient as domestic transfers; increase the usage of card based payments and make them more affordable; and eliminate the settlement risks associated with cross-border trades in equities and public debt securities.

The SADC BA is working closely on these initiatives with other stakeholders involved such as the Committee of SADC Stock Exchanges as well as likely service providers and financial market infrastructure operators.

Regionalisation leading to positive change

The SADC is currently undertaking major changes within the financial area in the region which should not only lead to improved trade, tourism and investment within SADC but also to an improved perception globally. An improved perception globally should in turn lead to increased investor confidence and increased external trade, tourism and investment in the region.

The evolving banking requirements of African corporates

Patrick Gutmann & Nkosinathi Moyo, *Ecobank*

With its strong economic growth and development, Africa attracts significant investment and donor fund flows. Consumer spending is on the rise, a new middle class is emerging, export markets are evolving and corporates are keen to capitalise on the rising sales of goods and services. According to McKinsey's 2012 report "The rise of the African consumer", the continent's consumer-facing industries are expected to grow by \$400bn by 2020; this represents Africa's single largest business opportunity and outpaces growth in resources revenue.

Such consumer and export growth means corporates are increasingly expanding across borders to create regional and pan-African businesses. This places greater demands and new requirements on the financial services needed to support them. Multinational companies active on the continent expect corporate banking solutions that are aligned with global best practices – and this is increasingly true for African corporates, too. As they expand across the continent and beyond, Africa's businesses require ever more sophisticated banking products and services that work effectively and efficiently across multiple countries, in multiple currencies, and in a variety of regulatory jurisdictions.

The banking sector in Africa is responding. The sorts of services and solutions that have historically been considered too complex to deliver in Africa – such as direct connectivity or cash pooling arrangements – are now increasingly feasible for corporations or international organizations that have operations across the continent.

This is critical. To support economic growth in Africa, it is crucial that the continent's corporate community has access to the right products and services. Moreover, it is essential that services such as cash management are not limited to a few of Africa's biggest economies, but are offered in a greater number of countries across the continent. This will enable treasurers to achieve higher levels of integration and standardisation, and support improved efficiency for their organisations. This brings down cost and increases growth opportunities.

Corporates are looking for banking partners that have the right technical infrastructure and the right capabilities, where they need them. But the value that banks now bring goes beyond their product offering. In a world where borders are reducing but regulations are ever-more stringent, banks must also understand the various regulatory environments and the

constraints that other policies place on business. For example, most countries in Africa regulate the movements of funds between countries, so it is crucial for customers operating in these markets to understand the implications for their business, and how it will effect cash management operations and local liquidity.

Africa is a complex, nuanced market of 54 countries and more than 2000 dialects, according to Unesco. What is typical in the north or the east – whether in terms of consumer preference or business culture – will likely differ from other regions. Corporates are increasingly looking for business partners who can help them to navigate this vast continent, and provide the kind of integrated and sophisticated set of services to formulate a winning business model. The needs of corporate clients are helping to shape the banks in Africa as much as the African economy is driving the companies that banks serve.

What will drive change in cross-border transaction flows?

Cross-border payments intra-Africa and between Africa and the rest of the world are skewed towards USD usage and USD clearing via North American banks. Of all commercial payments sent from Africa, 49% are dollar-denominated. This trend may look unsustainable when less than 10% of the underlying trades have their final destination in the United States.

This paper identifies four environmental forces that are likely to reshape African cross-border payment flows. These forces are: (1) the political will to regionalise and better equip African financial markets; (2) the evolving requirements of the African market demand side; (3) the international regulatory pressures making access to USD clearing more costly; and (4) the emergence of new financial market infrastructures that aim to increase regional accessibility, improve efficiency and reduce settlement risk.

1. Political will to regionalise, raise FDI attractiveness and boost intra-Africa trade

Many African countries believe regional collaboration will help to achieve their political, economic and social goals. Smaller economies may be constrained in their growth prospects and have less bargaining power at an international level. Integration and cooperation can eliminate obstacles to trade and make regions more competitive in the global financial marketplace, helping all the countries within the region to benefit.

African leaders also see in regionalisation a way to foster intra-Africa trade flows and attract FDI. To that end, policy makers recognise the need to build sound financial marketplaces with the appropriate legal framework and technological infrastructures. Eventually, these initiatives are likely to increase intra-Africa trade flows and may result

in cross-border payment flows using local currencies and regional clearing infrastructures.

A powerful illustration of the potential impact of regionalisation on African cross-border payments is the experience of the ECOWAS-UEMOA and ECCAS-EMCCA region. These groupings of Western and Central African states share common currencies (XOF and XAF) and common clearing and settlement infrastructures for payments. As a result, only 2% of ECOWAS-UEMOA and ECCAS-EMCCA trade settlement involves a financial intermediary outside of Africa – compared to 48% of intra-Africa trade settlement overall.

2. The demand side of the African market is expanding and evolving
Corporates are the primary drivers behind cross-border transactions. As they expand across Africa and develop relationships with foreign businesses in Asia or other regions, their needs for financial services are evolving. The continent's regionalisation initiatives support those corporates by providing easier access to a wider range of financial products.

Large corporates in industry segments such as telecommunications, oil, and mining already operate with a regional scope; as a result, within the ECOWA-UEMOA region, for example, many of these are asking for facilities such as centralised liquidity management products. It is expected that small- and medium-sized businesses (SMEs), attracted by similar growth prospects, will follow larger corporates into adjacent counties; and as SMEs expand in Africa, so will the volume of intra-regional payments. It is therefore likely that businesses will become increasingly comfortable with trading in their own or other local currencies. Indeed, some corporates in Eastern Africa are already willing to issue invoices and accept rand payments from other African businesses.

For those corporates working with Asian firms, the current disconnect between the volume of commercial flows and that of financial flows could point to the need for banks on both sides to rethink their service proposition. For example, banks may look to further integrate the trade finance and cash management offerings, particularly as the RMB gains ground. Indeed, many are already anticipating that the main trading currency will one day be the RMB, given that the dominant trade corridor is with China. However, SWIFT statistics illustrate that despite the strong 36% annual growth of the RMB, the USD remains the preferred trading currency and current RMB volumes are negligible, representing only 0.04% of existing African cross-border transactions.

Assuming the RMB sustained its current growth rate and the USD growth remained flat, it would take 25 years for the RMB to catch-up with the USD current volumes. That said, the growing importance of the China-Africa corridor means this is an important macro-economic parameter to monitor. Should a shift to the RMB occur, it will likely happen rapidly once the tipping point is reached.

3. International regulatory pressures also impact cross-border transactions

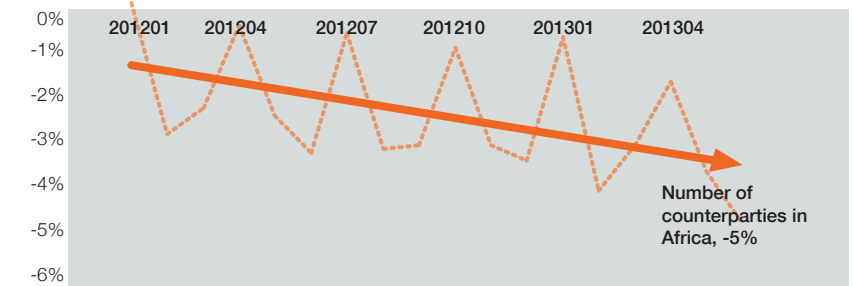
Transaction patterns will also be reshaped by regulations that impose strong prudential controls and operate a zero-tolerance to exposure to potential money laundering or terrorist financing. For European and American global transaction banks – operating from jurisdictions where the regulatory regimes are particularly onerous – it is becoming prohibitively expensive to do business with small banks they do not know, particularly if they cannot prove that they have in place sufficient anti-money laundering and counter-terrorist financing (AML/CFT) processes.

The graph above illustrates the trend: active correspondent banking relationships have been reducing between African banks and their European and American counterparts.

Regulations in Europe and the United States have increased the cost of transacting with banks on the African continent through the implementation of much tighter KYC (know-your-customer) and AML requirements. As a result, American and European banks are reviewing their network of correspondent banks in Africa, usually with the objective of reducing number of preferred partner banks. Some may even decide to outsource coverage of the African continent to other providers. Trusted local banks therefore have an opportunity to play a greater role as intermediaries in the provision of local transaction services. Already, we are seeing African transaction banks positioning themselves as a gateway for banking with Africa.

Such trends mean African banks will likely experience change in their business relationships with foreign banks. Smaller local banks in countries where AML/CFT frameworks are still immature are likely to face the biggest challenges and risk finding themselves with no direct access to USD or EUR clearing.

Evolution of number of African counterparties for European and American banks



Source: SWIFT (number of banks in Africa sending MT940 to counterparties in Eurozone or North America)

On the other hand, African banks that invest in the processes, infrastructures and know-how that will enable them to demonstrate compliance in a transparent way will capture the lion's share of foreign business. Foreign banks from mature economies are eager to participate in Africa's vibrant growth because their core markets do not offer the same prospects. So, while they may want to reduce exposure to Africa from a compliance perspective, they are more than willing to invest assets given the right assurance.

4. Financial Market Infrastructures modernising

Africa is investing heavily in its financial markets backbone. Like telecommunications, roads and ports, financial market infrastructures pay for themselves in terms of fostering economic development. SWIFT connects and serves more than 20 payments market infrastructures in Africa and is proactively supporting the design and roll-out of what we call the 'third-generation' of payment market infrastructures in Africa.

The first generation was introduced in the 1990s in the form of RTGS systems, with the primary aim of equipping domestic economies with robust settlement and risk management systems. The second generation involved interlinking RTGS with ancillary systems, such as government securities, CSDs, ACH, cards and point of sales. Some African nations are now planning infrastructures with a cross-

border reach and multi-currency support, which use international standards such as ISO 20022 for messaging and adhere to CPSS-IOSCO key principles. With the adoption of the latest communication and information technology, these third generation systems will support central bank reporting, raise transparency, and increase security and resiliency.

African central banks and regional economic communities understand the importance of sound financial market infrastructures in developing African trade. FIMs provide more certainty and greater efficiency in transaction processing. Accompanied by a sound, harmonised legal and regulatory framework, robust regional FIMs will ultimately make intra-region payments more competitive, reducing the need for foreign financial intermediation. This change will likely be gradual, but it looks irreversible; as these infrastructures mature, intra-Africa transactions will converge towards them.

Financial markets infrastructure: requirements for Africa

Nerina Visser, *Head of Beta and ETFs, Nedbank Capital*

An overhead view of the African continent – with the railroad infrastructure highlighted – provides a stark reminder of its colonial past, and especially the extent to which infrastructural development focused on exports to the rest of the world, rather than on transport on the continent. Not only are the vast majority of railway tracks laid down between the mining operations and ports and export harbours, many of these railway sections cannot be connected to one another as there are differences in gauges and other specifications, making them incompatible with one another.

The former Dark Continent is currently on a significant infrastructure development drive – especially of the physical kind. Simultaneously, technological highways and rural byways are also being rolled out, as both telecommunications and financial services providers compete to reach the millions of unconnected and unbanked throughout the 'Middle Africa' region – essentially sub-Saharan Africa excluding South Africa.

Unless we heed the lessons from the past, we run the risk of making the same mistakes in technology and financial market infrastructure development as were made with the railroads. Some of the statistics from recent SWIFT data on financial transaction patterns in Africa present us with warning lights, revealing development that is too focused on traffic flow in and out of the African continent (similar to the export of raw materials

and the import of finished goods), and not enough on intra-African trade and investment traffic flow.

Fortunately not all infrastructure development is of the retrograde kind. There are some initiatives clearly aimed at facilitating and accelerating intra-African trade and investment. For example, listing requirements for Exchange Traded Funds (ETFs) and Depository Receipts (DRs) have been adopted by several stock exchanges on the continent, and some are in the process of establishing derivatives markets. In addition to bringing non-African investment opportunities to these markets, thereby potentially increasing diversification and liquidity, this also opens up the opportunity for African investors to invest in the equity of African businesses and operations by bringing these listings 'home' to the local capital markets. For example, African mining stocks listed on developed markets, and companies in the first world who have globalised their operations to Africa.

The first step to trade and investment is usually research and analysis. For this reason, it is good news that the Open Data Platform (ODP) of the Africa Development Bank (AfDB) – which increases data accessibility – is now operational for the entire African continent. The initiative provides all 54 African countries with social and economic statistical data in a single and unique platform, while offering additional data on key development topics which can be

accessed by researchers, analysts and policymakers worldwide. International development agencies, including the IMF, will now upload and regularly update their statistics on African countries on to the ODP. The Platform functions as a central hub for data-sharing with international development partners and potential investors alike, including those on the continent.

These types of initiatives further serve to develop and deepen the financial markets of the continent, thereby increasing the multiplier effect in economic growth. Between 2003 and 2011, intra-African investment into new foreign direct investment (FDI) projects in Africa grew at a 23% annual compound rate, according to Ernst & Young. Since 2007, that rate has increased to 32.5%, more than double the growth in investment from non-African emerging markets and almost four times faster than FDI from developed markets. Pension funds in Africa have the potential to become prominent continental investors, although it may require an update to their allowable asset allocation limits and other related regulations.

Africa has made a key shift in focus – from looking towards the rest of the world for development aid and investment flows, to an intra-Africa focus of how to unlock investment opportunities WITHIN the continent; building infrastructure – especially of the technological kind – that serves the people of the continent before it serves its former colonial masters.

What will change in African cross-border banking?

It is clear from existing initiatives that sub-regions which share historical and economic ties are evolving to form relatively small building blocks, but it seems unlikely that Africa will integrate into a single trading or economic bloc. The forces for change mentioned above will take time to materialise; however, in the banking landscape that is emerging we believe there are three scenarios that should be watched:

1. Fewer but bigger African players

The first trend we anticipate is that African banking will morph towards fewer but bigger African players in the cross-border space. This is because African banks are today better positioned in terms of balance sheet, local market understanding and risk appetite to capture growth across the continent. South Africa's Standard Bank, Morocco's Attijariwafa Bank, Togo's Ecobank, and Nigeria's United Bank for Africa are all good examples of banks already pursuing a pan-African expansion strategy. Banks that grow outside their national borders will not only gain access to new "local" markets, but also capture the related regional and international trade.

Those banks that do become truly pan-African will also be more attractive to foreign banks interested in doing cross-border business with Africa. While they possess some significant competitive advantages, such as global footprint and a sophisticated product offering, many foreign global banks have less capability to develop a large footprint on the continent due to liquidity and local market know-how. So, attracted by the strong growth in sub-Saharan Africa, they could be looking for strong and reputable partners. The business relationship between banks in Africa and banks dealing with Africa is therefore likely to evolve; what used to be seen as a one-sided arrangement is evolving towards a more balanced and reciprocal partnership.

2. More transactions will shift towards regional currency denomination

The USD is the base currency for half of all cross-border payments from Africa. For inter-continental transactions and for transactions between less well known trading partners, it is unlikely that the hegemony of the USD will be challenged soon; transacting in USD brings greater certainty.

However, the experience from ECOWAS-WAMU/UEMOA and ECCAS-EMCCA/CEMA suggests that for a substantial and growing proportion of intra-Africa trade, we could expect a shift in currency use.

Equally, African central bankers will continue to promote the use of their local currencies. Angola's recent changes in monetary policy offer a good example. In an effort to further integrate the oil-powered, US dollar-based side of the economy with that of the rest of the country, the regulator is gradually imposing the usage of the kwanza.

Simultaneously, across the continent, access to the USD is also becoming increasingly difficult for smaller players, principally because of tighter anti-money laundering and know-your-customer requirements.

The USD became a global reserve currency after the Second World War when the United States was the largest trading nation, exporter and creditor. Given that this role is increasingly being taken by China and that by 2014 OPEC estimates China will become the world's largest oil importer, the emergence of the Petroyan may be just around the corner. Russia and Iran are already accepting yuan to pay for oil exports; Angola, with 38% of its oil exports destined for China, may be next.

SWIFT data illustrates that a USD/RMB tipping point is still some way off, although banks are already preparing for this scenario. Before it could happen, a number of conditions must first

materialise. The first – the existence of important Africa-China trade corridors – is already met. Other conditions – including the right regulatory framework, RMB convertibility and corporate demand – remain latent.

3. Opportunity for an African multi-currency clearing centre

As growth and greater integration generate more transaction volumes, the economics of setting-up a multicurrency (EUR, USD) clearing infrastructure for the continent may become more persuasive. Moreover, growing local flows denominated in foreign currencies could eventually encourage the financial community to set up more efficient clearing arrangements. In 1996 Hong Kong established such an arrangement, under the leadership of the Hong Kong Monetary Authority and in partnership with two clearing banks: HSBC for the USD and Standard Chartered for the EUR.

That said, the context is different in Africa than in Hong Kong. There is not yet a well-established international financial centre on the continent. Equally, even if local USD clearing could create transaction processing efficiency and transparency, neither African nor US regulators are looking in this direction. Additionally, while technically feasible, this scenario does not follow the political direction of existing regional integration initiatives, which favour use of an African currency.

However, this scenario merits consideration. As the African markets develop, it becomes increasingly likely that a strong and reputable international financial centre will emerge. In this case, the set-up of a multi-currency clearing could arise.

How may the changes impact banks?

Because cross-border payments are a mirror of economic development, analysis of cross-border transaction flows can provide banks with some valuable insights for their businesses. We end the report with some key findings from two different perspectives: banks doing business ‘in’ Africa, and banks doing business ‘with’ Africa.

Banking in Africa

Growing economies offer African banks an obvious opportunity to expand. There is a huge un-banked population to capture, a growing middle class and a corporate client base that is expanding across and beyond the continent. In terms of cross-border banking, regionalisation will strengthen African banks’ competitive advantage because they will be able to capture the increasing intra-Africa trade flows.

In the face of tough new regulations and onerous capital charges, banks will need to think about raising their compliance profile. This may require effort not just from individual banks but from entire financial communities as well as policy makers and regulators. Compliance with international regulatory frameworks, such as that laid out by the G20-mandated Financial Action Task Force, will become intrinsically linked with a country’s business reputation: attracting inward investment and maintaining access to international capital will require compliance at a community level.

Because achieving, proving and maintaining regulatory compliance is a high, fixed cost, smaller and purely domestic African banks may find the compliance challenge a significant hurdle. For banks with a low volume of cross-border transactions, it will be particularly difficult to justify the investment required. In these circumstances, shared and community solutions could offer a viable alternative.

Going forward, successful international banks in Africa will need to consider a pan-African reach, compliance reputation, evolutions in multi-currency management, and the ability to offer efficient solutions to African corporates. Relationships with international banking partners will evolve and offer opportunities for further collaboration.

Banking with Africa

Global banks from mature economies will likely rethink their transaction banking activities with Africa. While they want to participate in the growth opportunities, for some, the costs and risks of doing business in Africa could outweigh the benefits.

Business strategies will diverge along two routes: building or outsourcing. In the first, banks will maintain a large network of domestic banks across Africa; in the second, they will have a smaller number of pan-African banking partners which will in turn provide access to a greater number of markets. Whichever strategy is chosen, the nature of the business relationships with African banks will evolve.

Banks from emerging markets that are important trading partners for Africa are also likely to reconsider their product and service positioning. Evolution in the needs of African corporates will eventually translate into new requirements, such as a growing appetite for centralised liquidity management and use of other currencies, and drive new business propositions.

For example, as trade volumes between the emerging economies of Africa and Asia continue to grow faster than between Africa and mature economies such as Europe and the US, banks from Asia may look to serve their own corporate clients using expertise from the local African markets rather than from global players. Gradually, direct relationships will build up with African banks and global players may be disintermediated. This could offer new partnership opportunities.

Conclusion

Africa’s economic vibrancy is felt everywhere. With this paper, our aim is to provide a transaction banking perspective on the continent’s development using reliable and up-to-date payments statistics. This data confirms the importance of trade corridors between Africa and Asia Pacific and also intra-Africa. Intra-African payment volumes represent a higher than expected total share of volumes (23%). Regional integration initiatives as they mature are likely to contribute to those flows. The data also highlights the importance of the EUR and USD denominated payment flows, and despite the common expectations that major tectonic shifts may soon challenge those currencies, we find no evidence that this is happening. We conclude that there will be no revolution but rather an evolution in African cross-border banking. Yet no-one can ignore the macro-economic and political forces at play; to be a successful pan-African player will require careful monitoring of these forces so that businesses can be positioned to benefit from potential shifts.

APPENDIX

The following section takes a closer look at the different regional initiatives and provides a transaction flows identity card across two metrics: overview of the main commercial and financial counterparties for outgoing payments; and distribution by counterparty region for the intra-Africa financial flows.

EAC – East African Community

The East African Community (EAC) is the regional intergovernmental organisation with a mission to widen and deepen economic, political, social and culture integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investments.

Current status

The EAC established a common market in 2010 aiming to provide the free movement of goods, labour, services and capital.

Policies to improve the free movement of capital within the EAC include enhanced macro-economic policy harmonisation and coordination particularly with regards to fiscal regimes and monetary policy. Under the Common Market Protocol, partner states agreed to remove all barriers and restrictions on the movement, sale, investment and payments of capital. To this end, Kenya, Tanzania and Uganda have implemented a multicurrency regional payment system interlinking the domestic payment systems in each of the three countries. This facilitates cross-border fund transfers within the Community and thereby supports increase of free movement of goods, labour and services.

Next steps – enlargement of the Community

The realisation of a large regional economic bloc encompassing the five member states – with a combined population of more than 130 million people (2010*), land area of 1.82 million square kilometres and a combined gross domestic product of \$74.5 billion (2009*) – has great strategic and geopolitical significance and will play a key role in boosting the economies of the East African region.

Immediate next steps would be to build infrastructures in Burundi and Rwanda with development of key financial market infrastructures as the core engine of the domestic economy.

The next phase of the integration will see the bloc enter into a monetary union and ultimately become a Political Federation of the East African States.

EAC

Member States

Burundi, Kenya, Rwanda, Tanzania, Uganda

Population

141 million (2011)

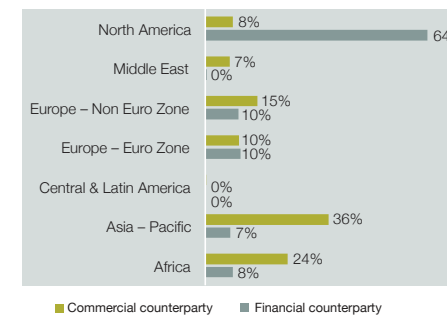
GDP:

USD \$82.8 Billion (2011)

GDP/population

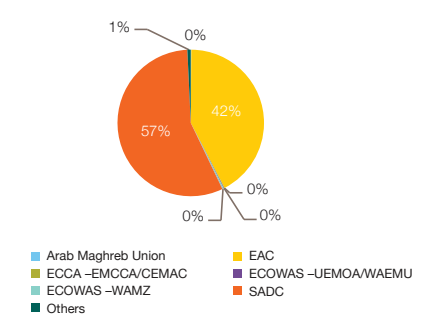
USD 584 (2011)

EAC – Distribution of outgoing payment flows



Source: SWIFT (number of cross-border MT103 sent from Africa in April 2013)

EAC – Intra-Africa financial counterparties



Source: SWIFT, MT103 sent intra Africa in 2012

SADC – Southern African Development Community

The Southern African Development Community (SADC) aims to achieve economic development, peace and security, alleviate poverty, and enhance the standard and quality of life of the peoples of Southern Africa through regional integration.

Current status

In order to achieve the above objective, a comprehensive development and implementation framework – the Regional Indicative Strategic Development Plan (RISDP) – was formulated in 2001 guiding the regional integration over a period of fifteen years (2005-2020). The RISDP outlines key integration milestones in five areas: free trade area, customs union, common market, monetary union and single currency. The free trade area was achieved in August 2008, meaning that for 85% of intra-regional trade there is zero duty. The second milestone, to establish a customs union, has been postponed, with a new target date of sometime in 2013.

Although the ultimate goal of monetary union with a single currency is several years away, the SADC Payment System integration project is already in motion. This has strategic objectives to: harmonise legal and regulatory frameworks to facilitate

regional clearing and settlement arrangements; implement an integrated regional cross-border payment settlement infrastructure; and establish a co-operative oversight arrangement based on the harmonised regulatory framework.

The first phase of the cross-border payment settlement infrastructure (SIRESS) went live for the Common Monetary Area countries that use the South African rand (South Africa, Lesotho, Namibia and Swaziland) in July 2013. The new system allows the settlement of payment transactions in a central location using rand as the common settlement currency.

Next steps – towards an Economic Union

If successful, the new system will be rolled out to the rest of the SADC Member States as the region advances towards its eventual establishment as an economic union.

In parallel, the immediate next step is the establishment of the SADC customs union, which presents a number of challenges; the major one is the establishment of a single Common External Tariff, which requires convergence of all individual tariff policies into a single and uniform tariff regime.

SADC

Member States

Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe

Population

233 million (2011)

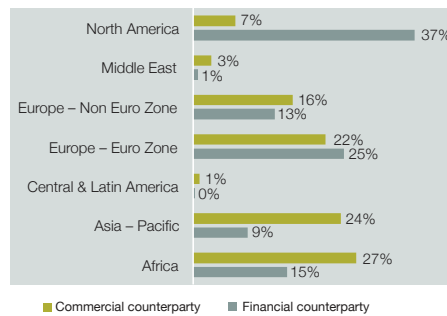
GDP:

USD \$ 631 Billion (2011)

GDP/population

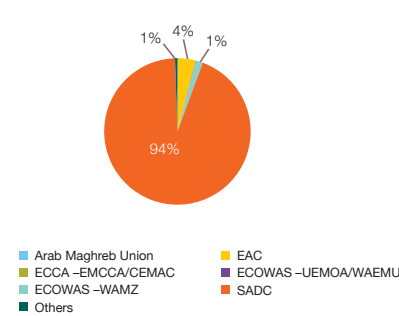
USD 2,699 (2011)

SADC – Distribution of outgoing payment flows



Source: SWIFT (number of cross-border MT103 sent from Africa in April 2013)

SADC – Intra-Africa financial counterparties



Source: SWIFT, MT103 sent intra Africa in 2012

ECOWAS – WAMZ – West African Monetary Zone

The Economic Community of West African States (ECOWAS) Monetary Cooperation Programme (EMCP) provided the blueprint for the economic integration of the countries of West Africa. Amongst other measures, the EMCP called for the creation of a single monetary zone in the sub-regions known as the West African Monetary Zone (WAMZ).

The WAMZ was created in April 2000 with the goal to establish an economic and monetary union of the member countries. In 2001, WAMZ created the West African Monetary Institute (WAMI) to undertake preparatory activities for the establishment of the West African Central Bank (WACB), and the launching of a monetary union for the Zone. The WAMZ programme aims to increase trade among the ECOWAS/WAMZ member countries, reduce transaction costs for the users of payment systems, domesticate cross-border transactions within the WAMZ through the use of a single currency, develop safe, secure and efficient payment systems that conform to global standards and build a payment system that will facilitate monetary policy management for the WACB.

Current status

Ahead of the establishment of the WACB, having a modernised, safe and stable financial infrastructure in place is a prerequisite to introduce a monetary union successfully. To this effect, a grant of about USD 30 million from African Development Bank Fund was approved for the WAMZ Payments System Development Project, which aims to improve the basic infrastructure of the financial sector through upgrade of the payment systems of our countries – The Gambia, Guinea, Sierra Leone and Liberia. The system components of the project include Real-Time Gross Settlement (RTGS) system, Automated Clearing House (ACH) / Automated Cheque Processing (ACP) systems, Central Securities Depository (CSD) / Scripless Securities Settlement (SSS) systems, Core Banking Application (CBA) system and infrastructure upgrade (telecommunication and energy).

The Gambia's high-value payment system went live in July 2012 and Sierra Leone is currently going through the implementation. The target date of the project completion in all four countries is June 2014.

Next steps – making Eco, the single currency, a reality

The upgrade of the payment systems is one of the critical regional financial infrastructural requirements for the successful launch of the monetary union and the single currency.

Immediate next steps will be to align the level of financial infrastructures in all member countries and complete the payments system project in the remaining three countries.

ECOWAS – WAMZ

Member States

The Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone

Population

209 millions

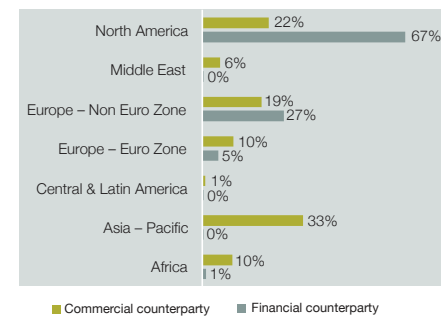
GDP:

USD \$ 284.7 Billion (2011)

GDP/population

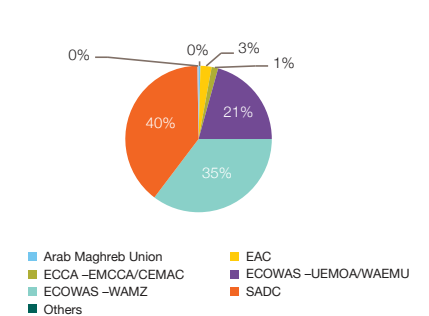
USD 1,359 (2011)

ECOWAS – WAMZ – Distribution of outgoing payment flows



Source: SWIFT (number of cross-border MT103 sent from Africa in April 2013)

ECOWAS – WAMZ – Intra-Africa financial counterparties



Source: SWIFT, MT103 sent intra Africa in 2012

ECOWAS – WAEMU/UEMOA – West African Economic and Monetary Union

The other sub-region the ECOWAS' EMCP created as a single monetary zone is the West African Economic and Monetary Union (WAEMU) / Union Economique et Monétaire Ouest Africaine (UEMOA). The WAEMU was established to promote economic integration among member countries and a common market that share West African francs (CFA francs) as a common currency, monetary policies, and French as an official language. It is a trade zone agreement to encourage internal development, improve trade, establish uniform tariffs for goods, establish a regional stock exchange and a regional banking system.

Current status
The UEMOA/WAEMU has successfully implemented macro-economic convergence criteria and an effective surveillance mechanism; adopted

a customs union and common external tariff; and combined indirect taxation regulations, in addition to initiating regional structural and sectoral policies.

Uniquely amongst Africa's regionalisation projects, UEMOA/WAEMU has a single central bank, Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), which governs all of the financial institutions across the Union. As part of the project for modernisation of the payment and financial infrastructure, the BCEAO launched a regional Real Time Gross Settlement (RTGS) system in 2004 and the regional Automated Clearing House (ACH) system in 2008.

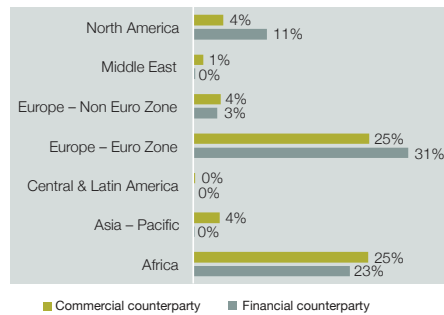
Next steps
In terms of the future outlook, some measures are being implemented to improve the services such as the establishment of an intra-day advance liquidity

management mechanism and the enhancement of payment system security in order to foster financial stability and limit systemic risk.

ECOWAS – WAEMU/UEMOA Member States
Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal, Togo

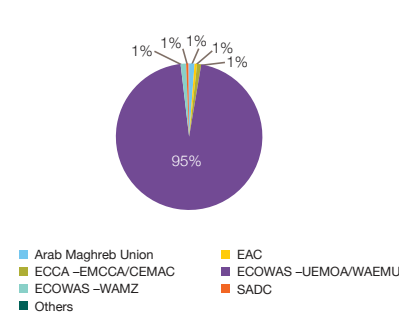
Population
98.5 millions
GDP:
USD \$ 77 Billion (2011)
GDP/population
USD 781 (2011)

ECOWAS – WAEMU/UEMOA – Distribution of outgoing payment flows



Source: SWIFT (number of cross-border MT103 sent from Africa in April 2013)

ECOWAS – WAEMU/UEMOA – Intra-Africa financial counterparties



Source: SWIFT, MT103 sent intra Africa in 2012

AMU – Arab Maghreb Union

The Arab Maghreb Union (AMU), in French: Union du Maghreb Arabe, UMA) is a trade agreement aiming for an economic and future political unity among Arab countries of the Maghreb in North Africa.

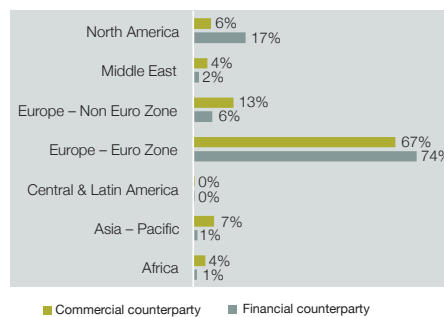
Current status
The union is not active due to deep political and economic disagreements within the sub-region.

Next steps
Resolve, among others, the issue of Western Sahara.

AMU Member States
Algeria, Libya, Mauritania, Morocco, Tunisia

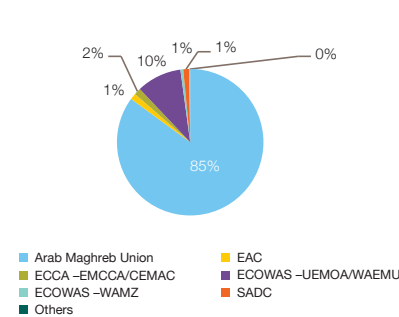
Population
88.8 millions
GDP:
USD \$ 401.2 Billion (2011)
GDP/population
USD 4,513 (2011)

AMU – Distribution of outgoing payment flows



Source: SWIFT (number of cross-border MT103 sent from Africa in April 2013)

AMU – Intra-Africa financial counterparties



Source: SWIFT, MT103 sent intra Africa in 2012

ECCAS – EMCCA/CEMAC

The Economic Community of Central African States (ECCAS; in French: Communauté Économique des États de l'Afrique Centrale, CEEAC) is an Economic Community of the African Union for promotion of regional economic co-operation in Central Africa. ECCAS aims to achieve collective autonomy, raise the standard of living of its populations and maintain economic stability through harmonious cooperation. Its ultimate goal is to establish a Central African Common Market.

In 1994, it established an Economic and Monetary Community of Central Africa (more commonly known as CEMAC from its name in French, Communauté Économique et Monétaire de l'Afrique Centrale) to promote the entire process of sub-regional integration through the forming of monetary union with the Central Africa CFA franc as a common currency.

Current status
CEMAC countries share a common financial, regulatory, and legal structure, and maintain a common external tariff on imports from non-CEMAC countries.

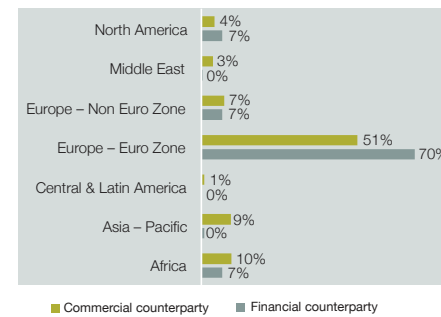
The Central Bank of Central African States (BEAC, Banque des Etats de L'Afrique Centrale) launched a regional RTGS system in 2007 as part of the framework of payment and financial infrastructure modernisation project.

Next steps
Movement of capital within CEMAC is free and, in theory, tariffs have been eliminated on trade within CEMAC, but full implementation of this has been delayed. To date, the region has not achieved its objective of creating a customs union.

ECCAS – EMCCA/CEMAC Member States
Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon

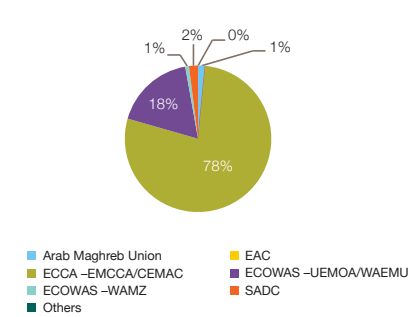
Population
42.4 millions
GDP:
USD \$ 88.7 Billion (2011)
GDP/population
USD 2,090 (2011)

ECCAS – EMCCA/CEMAC Distribution of outgoing payment flows



Source: SWIFT (number of cross-border MT103 sent from Africa in April 2013)

ECCAS – EMCCA/CEMAC Intra-Africa financial counterparties



Source: SWIFT, MT103 sent intra Africa in 2012

COMESA – Common Market for East and Southern Africa

The Common Market for East and Southern Africa (COMESA) is a free trade area aiming to generate self-sustaining economic growth and create a fully integrated and internationally competitive region where goods, services, capital, labour and persons move freely across borders. With its 19 member states, population of more than 389 million, an annual import bill of around US\$32 billion and export bill of US\$82 billion, COMESA forms a major market place.

Current status
The COMESA launched the COMESA Customs Union in 2009 and the COMESA Regional Payment

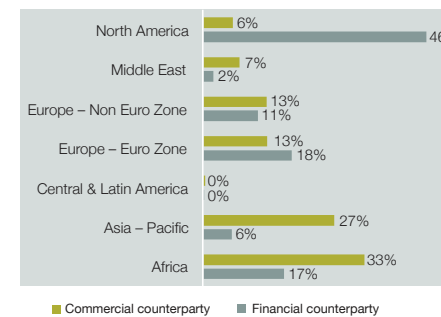
and Settlement System (REPSS) to facilitate cross-border payment and settlement between Central Banks in the COMESA region. The new system provides a single gateway for Central Banks within the region to effect payment and settlement of trades.

Next steps
The banking industry tasked the COMESA Business Council (CBC) to increase awareness of the REPSS amongst the bankers so that traders in the region can have more competitive and affordable cross border transactions.

COMESA Member States
Burundi, Comoros, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe

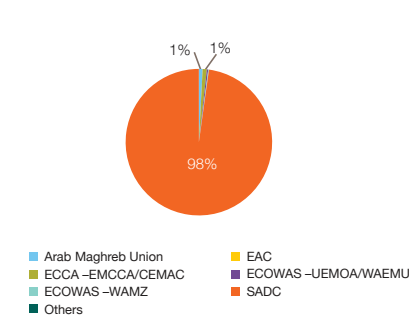
Population
349 millions
GDP:
D \$ 413,6 Billion (2011)
GDP/population
USD 1,183 (2011)

COMESA – Distribution of outgoing payment flows



Source: SWIFT (number of cross-border MT103 sent from Africa in April 2013)

COMESA – Intra-Africa financial counterparties



Source: SWIFT, MT103 sent intra Africa in 2012

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The SWIFT Africa Payments White Paper is based on unique data and analysis from SWIFT Business Intelligence. This portfolio of tools, including analytics, insights and economic indicators, provides granular detail on your SWIFT traffic across a variety of metrics, including currency, product type and value, and enables you to track market evolution. This helps financial institutions to make fact-based business decisions and more efficient use of their resources, and to identify market trends. For more information on SWIFT Business Intelligence and other services, please contact SWIFT.

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