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African Payments Leaders Seek Regulatory Support For Regional Trade

Mobile money services are revolutionising the payments sector in Africa, but a complex regulatory environment complicates cross-border transactions, impeding regional trade and financial flows.

Africa's cross-border payment infrastructure has been developed in the same way as its national payment systems.

Most African countries have well-developed domestic payment infrastructure, incorporating real-time growth settlement systems, national switching and check code line transaction systems, with vibrant payments markets and nascent fintech scenes. But these national systems are not fully linked to each other to facilitate cross-border payments.

The Pan-African Payment and Settlement System (PAPSS), which was established in 2022 to address this need, added Banque Centrale de Tunisie (BCT) on February 12 to its network as its 13th central bank member and first North African member.

PAPSS works with the region's central banks to deliver a payment and settlement service to which commercial banks and licensed payment service providers across the region can connect as participants.

The system was developed by African Export-Import Bank (Afreximbank) with the African Union and the African Continental Free Trade Area (AfCFTA) Secretariat to facilitate real-time settlement of intra-African trade and payments in African currencies.

By uniting central banks from across the continent, PAPSS aims to address the challenges businesses and individuals face in accessing efficient and cost-effective cross-border payment services.

"The challenge, however, is that only a few African countries have achieved full interoperability, which limits the ability to fully maximise the opportunity presented by the PAPSS platform," Ernest Addison, governor of the Bank of Ghana, said at the recent Africa Prosperity Dialogues conference in Ghana.

"Scaling up mobile interoperability across African nations would call for a review of legacy payment infrastructures, better policy coordination among member countries, and effective public-private and joint international collaborations that leverage new technologies."

Leaders in the African payments industry are calling on regulators and government policymakers in the region to provide updated frameworks to support more efficient money transfers between nations.

The need for interoperability

"When we think of a single market for Africa, one of the biggest opportunities we have is trade facilitation across borders, which would be our payment systems being able to enable payment across borders," Selorm Adadevoh, group chief commercial officer at mobile network operator MTN, said.

"Today MTN exists in Nigeria, MTN exists in Ghana, but I can't complete a transaction between my Nigerian mobile money wallet and my Ghana mobile money wallet because there is a barrier in between, which would be a regulatory barrier."

Ghana offers an example of the success of mobile payment systems, as the value of transactions soared by 63 percent in 2023, according to central bank data.

"The Ghana story speaks for itself ... that is what we need to achieve across Africa and it requires first of all the willingness to do it — the willingness for the politicians to take that conversation up among themselves, the willingness for regulators to sit and discuss the key issues that are important, that are necessary to address the problem," said Eli Hini, CEO of MTN Nigeria's Mobile Money operations.

"Because they are committed to doing it, it will be done. The system side has already been taken care of, so it's just a matter of building those systems."

Once regulations are in place, policymakers should consider the ease of participation in cross-border payment ecosystems, particularly for small businesses that struggle to carry cash across borders, which makes transactions more expensive, Hini said.

“By the time they go through those processes, if they add those costs to their cost of operation then it makes the cost of delivering their service higher than it should be. And at the end of the day, it’s the customer who is going to have to pay those additional costs.”

“Africa's long-standing strategic objective has been regional integration, and over the years various initiatives have been pursued by existing regional blocs to offer interoperable payment systems to facilitate trade. However, market fragmentation persists with a range of non-tariff barriers that increase the cost of transactions and limit cross-border trade,” Addison said.

“Mobile money has proven especially pivotal in fostering financial inclusion and given the myriad advantages it is advisable that a significant push be made to enhance interoperability across African countries.”

Africa's electronic payments industry generated approximately $24bn in revenues in 2020 across domestic and cross-border payments, of which about $15bn was domestic electronic payments, according to McKinsey’s Future of Payments in Africa report.

But on average only 5 to 7 percent of all payment transactions in Africa were made via electronic or digital channels. “This implies that e-payments have the potential of being a major growth tool for Africa, especially as the convenience and scalability of payment methods improves,” Addison said.

There have been initiatives towards fostering mobile money interoperability. However, the lack of a collaborative approach and the divergence in the development of the national payment systems, especially the lack of harmonised regulatory frameworks, have created barriers.

Differences in payment service provider (PSP) licencing requirements, know your customer (KYC) due diligence frameworks, financial and consumer protection provisions, financial dispute resolution processes, foreign exchange access and reporting regimes, as well as data protection and cross-border data sharing all require “concerted efforts from stakeholders to create an ecosystem conducive to interoperability to address the specific challenges in the region”, Addison said.

Consumers and business owners can send money between bank accounts, mobile wallets and merchants rapidly in domestic payment systems, but it can still take weeks to cash out funds and transfer them to relatives in another African country.

The need to send money via cash transfers also limits the sender’s ability to form a digital footprint that would provide access to savings and lending products, which has implications for economic opportunity.

“We're saying ‘let's provide the platforms so that these transactions can be facilitated’, but MTN on its own cannot complete the entire chain that's required for the transaction to be completed. Everything else has to fall in place,” Adadevoh said.

“The mindset has to change because in other markets — we take regulatory frameworks from Europe, we take regulatory frameworks from the US, or from other markets — all of these markets have advanced to pull down the barriers of trade across borders. Somehow in Africa, we insist on having these barriers exist but at the same time have these ambitions to leapfrog what's happening in other markets that did what we should be doing 15, 20 years ago. So I don't know when the right time is for us to make some of these bold decisions that would allow us to facilitate trade among ourselves.”

Mobile operators are key to providing money transfer services. They have already solved the issue of interoperability across networks with data roaming, and cross-border payments should be able to operate in the same way, noted Patricia Obo-Nai, CEO of Vodafone Africa.

“Frameworks exist, so how do we harmonise them? Can’t we agree on the standards? If all operators across the world have been able to interoperate on 2G, 3G, 4G data and you don’t have to think about it, what is so difficult about the transfer of money? We should be able to put this together because one of the participants in the ecosystem has been able to cross that hurdle, so the big one is just the political will to be able to do it.”

The challenge of consistent regional regulation

Government officials concur on the need to coordinate with their counterparts in other countries to support interoperability.

“We have to ensure consistency in the regulatory framework at the national and international level … . If you develop one policy in a country that is not consistent with what we have at the regional level, or perhaps fail to implement them, it becomes very difficult,” said Ibrahim Alpha Sesay, Sierra Leone’s minister for trade and industry.

“We need a regional approach — firstly when it comes in terms of the infrastructure, the available facilities, we have a lot of inequalities across different countries. The strength of the infrastructure and facilities in Ghana is different from Sierra Leone and Guinea, so the first step is to make a collective effort to make sure we have equity across the region because otherwise if I have the facility in Liberia, I have the infrastructure, but it does not exist in Ghana, it means we cannot trade, we cannot transfer.”

At the regional level, the AfCFTA agreement aims to identify some of the problems impeding cross-border trade.

“Some of them require policy decisions at the highest level,” Sesay said. “We have to work closely with the private sector to design these policies to be able to effectively roll them out across the country and also across borders.”

The AfCFTA agreement includes protocols on digital trade, investment, competition and intellectual property rights aimed at growing intra-Africa trade and investment, “but if we do not have the platform and the framework to ensure that there is seamless connectivity, seamless interoperability of financing and mobile then it is difficult”, said Roslyn Ng'eno, senior investment expert at the AfCFTA Secretariat.

“We know what the issues are, we know what the challenges affecting the continent are, and these issues include a diverse and inconsistent fragmented regulatory environment. We have security and trust concerns. We have a lack of standardisation of protocols and technical interoperability standards.”

However, the barriers to intra-Africa digital payments extend beyond regulation, noted Angela Wamola, Sub-Saharan Africa head at the GSMA trade group, as 60 percent of the infrastructure that has already been laid is not being used, as mobile internet penetration across Africa is just 25 percent.

“There is more to the story than meets the eye. If we want to have healthy private-public sector participation, we have to come to the understanding that it’s not about saying we need more processes, we need more policies, we need more systems. What we need to do is make them work.”

Lacina Kone, CEO of the Smart Africa alliance, urged companies to move ahead with innovation rather than waiting for governments to act, arguing that if Kenyan mobile operator Safaricom had waited for the Kenyan regulator to issue permits it would never happen. Instead, the operator addressed the market’s needs and the regulation followed.

“If you're expecting the government tomorrow morning to make new rules, new regulations, it’s not going to happen.”

Nigeria launched the e-Naira central bank digital currency in response to Bitcoin trading. “It’s about innovation,” Kone said. “The key is disruption. We follow choices, not rules … . Innovation only survives in an adaptive regulatory environment.”

Jurisdictions

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Products And Services

Mobile Payments