



**CONTINENTAL SEMINAR OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS
(AACB) ON "THE IMPERATIVES FOR IMPROVEMENT AND INTEGRATION OF
PAYMENT SYSTEMS IN AFRICA"**

Algiers, 5 – 7 May 2014

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CONCLUSIONS AND RECOMMENDATIONS

I. INTRODUCTION

- 1.1 The continental seminar of the Association of African Central Banks (AACB) was held from 5 to 7 May 2014 in Algiers. It was attended by sixty-two (62) delegates from twenty-four (24) member Central Banks and twelve (12) regional, international, and Pan-African organizations.
- 1.2 The opening ceremony was chaired by Mr. Mohamed Laksaci, Governor of the Banque d'Algérie, in the presence of Messrs. Habib Ben Yahia, Secretary-General of the Arab Maghreb Union and Mahmood Mansoor, Executive Secretary of COMESA Clearing House.
- 1.3 The participants much appreciated the warm and fraternal welcome extended to them and expressed their deep gratitude to the President, the Government and the people of the People's Democratic Republic of Algeria.

II. PROCEEDINGS OF THE SEMINAR

A - SUMMARY OF PRESENTATIONS

The seminar began with presentations from three experts who stressed the importance and the prerequisites required for the improvement and integration of African payment systems.

Subsequently, the represented central banks reviewed the situations of their respective countries and exchanged experiences and ideas. This process provided participants the opportunity to take stock of the payment systems in Africa and to propose strategic priorities for improving and integrating payment systems in our continent.

The stock-taking exercise provided some integration experiences that have been recorded in various African regions. These included:

- **WAEMU** (West African Economic and Monetary Union) with the systems operated by the BCEAO for Benin, Burkina Faso, Côte-d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo;
- **EMCCA** (Economic and Monetary Community of Central Africa) with the systems managed by the BEAC for Cameroon, the Central African Republic, Chad, Congo, Equatorial Guinea, and Gabon;
- **EAC** (East African Community) with the system operated for Burundi, Kenya, Rwanda, Tanzania and Uganda;
- **SADC** (Southern African Development Community) with a system managed for Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe;
- **COMESA** (Common Market for Eastern and Southern Africa), with a system managed for 19 countries of Eastern, Central, Northern, and Southern Africa (Burundi, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Union of the Comoros, Zambia, Zimbabwe).

Initiatives for integrating payment systems are also underway for member states of the West African Monetary Zone (**WAMZ**) including, Ghana, Guinea, Liberia, Nigeria, Sierra Leone and The Gambia.

B. BREAK-OUT SESSIONS

The "strategic directions for modernization and integration of African payment systems" were reviewed in four break-out sessions. The Sub-themes discussed by these break-out sessions were:

1. Prior legal reforms for the modernization and integration of payment systems;
2. Technical prerequisites for the modernization and integration of African payment systems;
3. Components of a multilateral clearing mechanism for effective African Payment Systems; and
4. Institutional framework for the development and interconnection of African Payment Systems.

III. RECOMMENDATIONS

The main recommendations to the break-out sessions were:

3.1. Prior legal reforms for the modernization and integration of African payment systems:

Systematic and progressive reforms of legal frameworks are important aspects of the integration of payment systems. These reforms should take into account all relevant elements of legislations. Legal provisions should facilitate timely intervention of regulatory authorities. The following recommendations were made:

Step 1: Key pillars of the legal framework

- The power of the regulatory authority in charge of payment systems on oversight, regulation, supervision and designation of domestic and cross-border systems;
- Consideration of the laws on insolvency and bankruptcy (protection of participants against the risk of selective settlement);
- The provisions for settlement finality should be clearly defined in the law, ordinances, and directives. The transaction must be settled regardless of insolvency status;
- Sound legal framework (unambiguous; clear rules and procedures; implementation of legislation; non-repudiable regulation; rights, obligations, and interests of participants; conflicting legislations among jurisdictions);
- Netting and novation arrangements should be defined and provided for in law and procedures;
- The legal framework should recognize other relevant alternative risk mitigation measures.

Step 2: Stock Taking

Each country and region should take stock of their current legal and regulatory landscape in line with the framework in step 1 above as a basis for identifying possible gaps.

Step 3: Action Plans

- Define and adopt a model to be used by various jurisdictions for implementations;
- Address gaps identified in Step 2 and clearly indicate deadlines, responsibilities and deliverables;
- Monitor and assess progress on implementation.

3.2. Technical prerequisites for the modernization and integration of African payment systems

The followings were recommended:

- Define common standards to facilitate trade;
- Define the minimum level of technical and functional requirements to facilitate the integration of modern payment infrastructures in Africa;
- Take into account the level of development of telecommunications infrastructure in Africa in the choice of payment solutions;
- Existence of a platform for trade settlement;
- Ensure the security of payment solutions at the African level;
- Ensure high availability of the system by taking into account of payment infrastructure redundancy (business continuity plan); and
- Ensure the necessary interface between national and / or regional systems in Africa.

3.3 Components of a multilateral clearing mechanism for effective African payment systems

The following prerequisites were underlined:

- Political will;
- Seeking funds;
- Harmonization of the legal and regulatory framework;
- Compliance with international standards of each payment system (existing or to be created).

The following recommendations were made:

✓ Stakeholders:

- The central banks are direct participants in the payment system (RTGS and ACH)
- Commercial banks are indirect participants
- The settlement agent manages inter-central bank operations. Selection of a settlement agent among central banks pending the establishment of the African Central Bank.

✓ Operations Management :

- Payments sent by commercial banks are validated by their Central Bank that debits their settlement account;
- The Central Bank sends a settlement request to the Settlement Agent;

- The Settlement Agent debits the Central Bank of the payer for the Central Bank of the Beneficiary;
- The Central Bank of the Beneficiary credits the commercial bank of the beneficiary.
- Choice of clearing and settlement currencies: euro and dollar pending the introduction of an African currency;
- Setting up a collateral; definition of minimum/maximum balances receivable per participant; supply mechanisms and penalties in case of failure;
- Interconnection of existing payment systems, and ultimately creation of an African payment system (clearing, settlement, switch);
- Establishment of a reliable and available network (high availability);
- Supporting measures for:
 - ✓ Strong backing of stakeholders;
 - ✓ Communication and awareness-raising among stakeholders on the benefits:
 - Reduced service costs compared with market solutions;
 - Time frame required for clearing & settlement in real time and day time option, etc.
- Management of currency and exchange:
 - ✓ Each Central Bank has pre-funded accounts (in Dollar and / or Euro) held with the Settlement Agent. These currencies may be interest-bearing.
 - ✓ Each Central Bank communicates its rate for the conversion of local currency into the Settlement Currency (dollar and euro).
 - ✓ Commercial banks send their payment instructions in local or foreign currency in relation to such rate.
- Establishment of a monitoring and risk management mechanism, at the central level and for each Central Bank.
- Admission criteria:
 - ✓ to be a Central Bank;
 - ✓ to open an account with the Settlement Agent (dollar and / or euro);
 - ✓ To have a payment system complying with international standards.
- Criteria for suspension:
 - ✓ Repetitive or significant financial failure;
 - ✓ Non-compliance with legal and regulatory framework.

3.4 Institutional framework for the development and interconnection of African payment systems

The following recommendations were made:

- Setting up an African Committee on Payment Systems. This Committee should preferably report to a continental institution such as AACB or AU for:
 - ✓ Appropriate governance including national, regional, and continental institutions;
 - ✓ Definition of a cooperation framework;
 - ✓ Definition of a common vision and strategy; and
 - ✓ Promotion of the integration of African payment systems (major settlement and retail payment).
- Setting up a Working Group for a feasibility study to undertake the followings:
 - ✓ Inventory of economic, financial, institutional and infrastructural profiles;
 - ✓ Comparative study of existing Regional Payment Systems ;
 - ✓ Integration model and strategy;
 - ✓ Associated risks and mechanisms to contain them;
 - ✓ Payments of large and retail amounts;
 - ✓ Identification of stakeholders (Central Banks, commercial banks, providers of payment services, etc).
- Setting up a Working Group on the Legal and Regulatory Framework to address:
 - ✓ Issue on the legal framework (harmonization of regulations on payment systems);
 - ✓ Definition of policies, rules, and procedures;
 - ✓ Process of handling disputes.
- Setting up a Working Group on Technical standards responsible for:
 - ✓ Defining standards;
 - ✓ Analyzing connection options for easy integration of payment systems;
 - ✓ Setting up a regional mechanism to monitor systems;
 - ✓ Defining a guide to integrate payment systems.

IV. CONCLUSIONS

The participants noted the need to set up a continental body to coordinate efforts aiming at modernizing and integrating payment systems in the continent.

This structure should have a strong participatory approach. In this regard, it may have national relays and should involve all stakeholders in the definition of guidelines. Besides, two types of strategies were advocated:

- In the short term, the body should devise an integration strategy based on the interconnection of existing regional systems or those underway;
- In the medium or long term, a strategy for the development of fully integrated systems.

Algiers, 7th May 2014