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Africa's journey towards an integrated digital payments landscape and how the EU can support it

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In 2021, Africa accounted for 70% of the total value of mobile money transactions globally. In recent years, the continent has experienced a rapid proliferation of digital instant payment solutions. However, many of these are not interoperable with each other, and even less so across borders. As Africa works towards building the African Continental Free Trade Area (AfCFTA), interoperability of cross-border instant payment solutions will be vital to increasing trade. Furthermore, ensuring cross-border interoperability of low value instant payment systems, notably mobile money, will be an essential step in making sure that the AfCFTA is inclusive, and that its benefits can extend to small-scale traders, many of whom are women.

This policy brief outlines why cross-border interoperability of payment platforms across Africa is important, where the opportunities and challenges lie, and how international partners such as the EU can support African efforts. It traces some of the solutions that are being applied both at the continental and at the regional levels, explores some of the lessons to be learned from these different cases, and proposes initial policy recommendations for the EU on how it could support Africa as it works towards developing inclusive interoperable instant payments systems.

Box 1: Glossary of key terms

African Continental Free Trade Area (AfCFTA): Is the African Union's Agenda 2063 flagship project to accelerate intra-African trade by creating a continental free trade area. The AfCFTA agreement entered into force in 2019 and is entering into the second phase of negotiation (which includes services and e-commerce) with 43 African countries having ratified the agreement as of May 2022. Meaningful trade is yet to take place while negotiations are being finalised (Tralac 2022).

Digital financial inclusion: "involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers" (WB n.d.).

Digital financial services (DFS): Refers to "a broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance. It also includes mobile financial services" (AFI n.d.).

Digital Public Infrastructure (DPI): Systems that are scalable and interoperable, such as e-identity, e-payments and data exchanges. They are vital building blocks that will allow for societal transformation at the national, regional and continental level in Africa. These systems in turn offer the basis for the roll-out of e-services, e-government and e-commerce. They can be built on the basis of digital public goods, such as open-source software and open standards that can be customised and rolled out in multiple different contexts (Mukherjee and Maruwada 2021)

Instant payments: "digital payments that can be made from customer funds in near real-time, at any given time. Instant payments tend to be lower-value, higher-volume transactions, but they are increasingly being used for larger payments, such as annual income tax payment (P2G) in many countries. The mobile phone is the most common channel for instant payments, also known as 'mobile payments' and delivered through USSD or in-app features, but other digital devices such as cards and wearables can be used to make instant payments as well" (AfricaNenda n.d.).

Interoperability: "The term "interoperability" is generally understood here as the property of products or systems which work with other products or systems without friction. When referred to retail payment systems, interoperability enables users to make digital payment transactions with any other user in a convenient, affordable, fast, seamless, and secure way, possibly via a single transaction account (see below). Interoperable payment systems allow two or more proprietary platforms to interact seamlessly, enabling the exchange of payment transactions between and among payment service providers and, consequently, users" (Bossone 2016).

Financial inclusion: "Financial inclusion is a multidimensional concept that encompasses all initiatives, from both supply and demand sides, within the financial sector. They include provision of appropriate and quality financing that is both accessible and affordable to low-income and other vulnerable households. Notably they target groups traditionally excluded from the formal financial sector" (AfDB 2013).

Peer-to-peer payments (P2P): All electronic transactions from one person to another through a money transfer app such as the Kenyan M-Pesa. This is the most popular form of payment in Africa as it ensures the financial inclusion of people without bank accounts. Government-to-people payments (G2P) are also increasingly growing thanks to technological innovation. For instance, during the COVID-19 pandemic, Togo launched Novissi, a cash transfer app that allows government-to-people payments (G2P), to help people in need.

P**ush payments:** A payment transaction that is initiated by the payer, who gives instructions to the bank or mobile money operator. It is a direct credit transfer that facilitates low value payments.

Pull payments: A payment transaction that is initiated by the payee/merchant.

'Tripartite' FTA (COMESA-EAC-SADC): The Tripartite FTA between the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC) comprises 26 countries and aims to strengthen economic integration of the Southern and Eastern Africa region (SADC n.d.). Although the initiative preceded the AfCFTA, it has since been overtaken in implementation and requires additional ratifications to enter into force.

Introduction

Recent years have seen a rapid proliferation of digital instant payment systems. The value of mobile money transactions in Africa stood at $701.4 billion in 2021, which is 70% of the world's $1 trillion total mobile money value (Onyango 2022). In Sub-Saharan Africa, more than 60% of the adult population have mobile money accounts (Market Finder n.d.), which has helped increase financial inclusion in Africa, but regions experience different levels of financial exclusion. Countries in Central Africa record the highest level of financial exclusion on the continent (AfricaNenda 2019). Despite the bloom in terms of actors pushing for inclusive finance, the instant payment ecosystem across the continent – and indeed within most countries and regions – is highly fragmented, without an overarching regulatory framework that can tie all the payment solutions together. Cross-border payments are often both costly and slow. This is due to a combination of weak regulatory coordination in many regions, and private sector actors in the instant payments landscape "grabbing different parts of the elephant" (interview); often pursuing short-term profits and market share over longer-term agendas of regional growth and inclusion. Greater cross-border interoperability of instant payments systems in Africa would help promote cross-border e-commerce, small-scale trade and peer-to-peer (P2P) interactions between African countries.

At present, negotiations around the AfCFTA are ongoing, with the aim of increasing intra-African trade, which currently stands at only 14.4% of Africa's total exports (Grynspan 2021). Cross-border interoperable instant payment systems (sometimes referred to as real-time retail payment (RTRP) platforms), which target primarily mobile money, will be important to help women, youth and other small-scale economic actors, such as (informal and) Micro, Small and Medium Enterprises (MSMEs), to seize opportunities in cross-border trade, thus contributing to the inclusive and sustainable dimensions of the AfCFTA. Women, who account for 60-70% of Africa's 332 million unbanked population, are key participants in informal cross-border trade in African border regions (Karkare et al. 2021). Ensuring interoperability of small-scale instant payments across borders is one way to ensure that the AfCFTA benefits not only large businesses, but also smaller scale trade activities.

The COVID-19 pandemic further underlined the importance of digital financial inclusion to build resilience to exogenous shocks, while also leading to an expansion of the e-commerce market in Africa by 42% from 2019 to 2020 (Njugunah 2021). Many governments across the continent were able to provide quick, secure and efficient financial support to the most vulnerable groups thanks to digital payment systems and other digital infrastructure such as e-identity and learning platforms, often built using digital public goods (Oguntuase 2021; Mukherjee and Maruwada 2021). At the regional level, as many informal cross-border traders relied on e-commerce to keep their businesses going, banks such as the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), the Central Bank serving the eight member West African Economic and Monetary Union (WAEMU), started consultations with mobile money providers and other financial institutions to coordinate measures to promote digital payments (BCEAO 2020). The pandemic brought attention to the fundamental question of who benefits from digital payment systems, as well as raising a call to action for regulators to increase digital financial inclusion. The pandemic also directly contributed to the decision to include the e-commerce protocol in Phase II negotiations of the AfCFTA rather than Phase III as originally planned (Interviews).

Supporting the development of an African digital single market is also a strategic focus for the EU's digital partnership with Africa outlined in its 2020 Africa strategy (EC/HRVP 2020). As an international partner with experience in implementing its own single market, the EU can play a strategic role in helping African governments develop inclusive digital payment systems that are interoperable across borders. The EU's digital strategy in Africa attempts to encompass many areas of action, and the EU and its member states are currently moving to the implementation phase of the new Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe) financial instrument for the period 2021-2027, meaning that they are in the process of defining clear programmes. It will be important for the EU to engage in these questions to identify where the real need for support lies, and what the EU's commitment to provide support to the AfCFTA under Team Europe umbrella, means in practice (SSA MIP 2021).

In this policy brief – the first of two – we explain why cross-border interoperability of instant payments is important, briefly examine some of the ongoing initiatives in this area and analyse some of the opportunities and challenges. We conclude by outlining some preliminary suggestions about where international actors such as the EU, might play a role. A second policy brief will look in more depth at the EU's own interoperability journey and how it can play a role in this area, particularly in Africa. The brief is based on desk research and interviews with a select number of African and European stakeholders.

Building an inclusive continental single market: Cross-border payments and the AfCFTA

Cross-border interoperability of payments across Africa is a key step towards facilitating trade between African countries by reducing the overall cost of cross-border trade in Africa. However, while high-value wholesale payments underpin large scale trade, facilitating digital instant payments or 'retail' payments across borders can help enable e-commerce and allow informal traders – often women – to access the formal economy and thus benefit from the AfCFTA, as well as facilitating wider P2P payments across borders. Financial services, including digital financial services, are a key element of current negotiations around both the services and e-commerce protocols of the AfCFTA.

With efforts to ensure cross-border interoperability of instant payments in Africa happening at the national, regional and international levels, some of the people we interviewed voiced different views around the most relevant approach to achieve cross-border interoperable instant payments across the continent. Some favour a continental approach directly, but others suggest a more gradual approach building on current regional initiatives that work.

At the continental level, the Pan-African Payment and Settlement System (PAPSS) has been set up to provide a cross-border, financial market infrastructure. It is implemented by the Afreximbank and the support of the AU and the Secretariat of the AfCFTA, and aims to enable payment transactions across Africa in 42 national currencies, which it estimates should save around $5 billion in currency conversion each year (PAPSS n.d.). Several interviewees express a high-degree of optimism about PAPSS as a key component of implementing the AfCFTA, but the extent to which PAPSS will be able to integrate low-value instant payments that are essential to guarantee inclusiveness remains to be seen. Some interviewees suggest that PAPSS is likely to be part of the solution, but may ultimately be part of a patchwork of interoperable regional initiatives (Interviews).

Box 2: Example of a continental Pan-African payment system

- **Pan-African Payment and Settlement System (PAPSS)**

The PAPSS is one of the five key building blocks of the AfCFTA, which was developed to function as an interoperable instant payment platform that will integrate already existing payment systems. Together with participating central banks, Afreximbank is acting as the main settlement agent (see Figure 1). It was launched in January 2022 for commercial use after a successful operational pilot that began in September 2021 in the following West African Monetary Zone (WAMZ) member countries: Nigeria, Gambia, Sierra Leone, Liberia, Ghana and Guinea. The system allows both banks and other authorised financial institutions to participate in the platform.

There are already nearly 20 commercial leaders active in the region that have joined the system (Thompson 2022). The goal is to integrate more central banks outside the WAMZ in the PAPSS. Ecobank, which is a bank operating in many African countries, has also already announced its support for the platform. Afreximbank aims to **scale up the initiative across the continent** by increasing technological infrastructure, further simplifying the payment landscape and harmonising regulation of digital financial services.

At the national level, a limited number of individual governments have demonstrated leadership and put in place instant payment systems that ensure interoperability between operators. These are designed to be interoperable with regional or continental initiatives. In May 2018, Ghana established the first interoperable mobile money switch (a platform or technology that interconnects different financial institutions to make transactions possible) in Africa (see Figure 1). The system extended the existing Gh-link switch, allowing customers "to push and pull funds across mobile money providers and between mobile money providers and banks" (Republic of Ghana 2018). Ghana was also the first country in Africa to introduce a universal QR Code in 2020, allowing payments between mobile money operators (MMOs), banks or a combination of the two using a simple barcode (Smart Africa 2021). Other countries have followed suit, including, for example, Tanzania, which was due to launch its Tanzania Instant Payment System (Tips) in February 2022 (Mirondo 2022), while a number of other countries are moving towards implementing their own interoperable mobile money switches. In East Africa, where a number of countries are individually implementing their own switches, it should eventually be possible for these countries to connect the various switches in order to create regional interoperability (Interviews). In other parts of Africa, a regional approach was adopted from the onset as we will see in the next section.

Figure 1: The key components of an instant payments system

Source: Cook et al. 2021

Ghana is also championing the Smart Africa Blueprint on e-payments that aims to support all African countries in moving towards cross-border interoperability, thereby contributing to building continental interoperability. The Blueprint aims to enable: "an interoperable, safe, affordable, universally accessible, inclusive and responsible African cross-border e-payments ecosystem to increase trade across the continent".[1] It has three pillars, which are: "1) creating a conducive policy and regulatory framework; 2) enabling payments infrastructure and encouraging the adoption of global standards for interoperability, and 3) promoting business ecosystem and strategic partnerships" (Smart Africa 2021: 22). At present, the Blueprint is just that, but the Smart Africa Alliance is now planning a series of activities to begin to build momentum around the Blueprint bringing digital stakeholders from all 55 countries in the AU including Eritrea, which has not yet signed the AfCFTA, together to identify challenges and opportunities for donors to invest on digital payments (Interviews). As pointed out by one interviewee, rolling out the Blueprint is intended to go hand in hand with implementing the e-commerce protocol of the AfCFTA.

Differing opinions are expressed by interviewees with regard to how to effectively develop interoperability of instant payments at the continental level, in part depending on their positions working in different organisations and at different levels (RECs versus continental level). Yet, there is already momentum to work towards the goal of interoperability with the view to contributing to building the AfCFTA. Several actors expressed great optimism about the development of PAPSS and a continental market, largely tied to the drafting of the e-commerce protocol of the AfCFTA, currently underway. The goal is for the first draft of the protocol to be ready in September of this year. It will integrate a strong focus on e-payments as an essential element in developing cross-border e-commerce. These actors pointed to the many advances already underway in this area, including notably the leadership of key countries such as Nigeria within PAPSS, the positive example of other countries such as Ghana, the leadership of private sector actors such as Ecobank, and the many actors across the continent working towards the common goal of interoperability (Interviews). Yet, other interlocutors suggested that the same goal might be achieved by building on regional initiatives with a view to interoperability between several platforms. Under this vision, a Pan-African system for instant payments would build on existing and future initiatives that function well and that have been built with strong institutional buy-in, including PAPSS (Interviews).

There are thus two approaches to developing cross-border interoperable instant payments, which are potentially complementary. This section focused on the ambitions to build a continental market. The next section will look at how some regions in Africa are building their own platforms to encourage cross-border interoperable payments at the regional level. These platforms aim first to develop regional interoperability, but also to build in the possibility of interoperating with other regional platforms to contribute to continental interoperability.

Successes and challenges faced by regional initiatives

This section discusses initiatives for cross-border interoperability of instant payments led by regional economic communities (RECs) or other regional organisations, highlighting some successes and challenges. These projects have largely been funded by the Africa Digital Financial Inclusion Facility (ADFI), which was set up by the African Development Bank (AfDB) with support from the Bill and Melinda Gates Foundation (BMGF), the Agence Française de Développement (AFD), the Ministry of Finance of the Government of Luxembourg and the Ministry of the Economy and Finance of the Government of France.

As we will see, some regions have been more successful than others in developing regional platforms, and much depends on the political economy of the different countries within a region, including the relative strength of different public and private sector actors in different regions, and on their differing interests and incentives. While interoperability of instant payments is expected to boost cross-border trade where it previously did not exist, there are difficulties in achieving interoperability even within regions that already have a significant level of cross-border trade. Although each regional setup is unique, there are common challenges around defining the level of flexibility (in terms of with whom to interoperate), domestic regulatory alignments and settlement options (AfricaNenda 2022). How barriers have been overcome within these regions may provide insights into how interoperability can be best achieved elsewhere and address the challenges faced on the ground (Interview).

One of the most advanced examples of cross-border interoperability of instant payments in Africa comes from the Southern Africa region. The Southern African Development Community (SADC) Banking Association developed an initiative for low-value cross-border 'push' transactions, named Transactions Cleared on an Immediate Basis (TCIB). The SADC Banking Association, which represents the region's commercial banks, had earlier been created to put in place a scheme for high-value payments, the SADC Integrated Regional Electronic Settlement System (SIRESS). Both schemes depended on strong private sector cooperation with Central Banks as regulators, but whereas SIRESS depended entirely on the banks, TCIB brought in the mobile network operators (MNOs), which were necessary to develop interoperable small scale cross-border instant payments. The TCIB includes the potential to be interoperable with other African regions such as EAC and COMESA to connect, and efforts are underway to expand the scheme across this 'Tripartite' zone (Interviews).

The interoperability of instant payments in SADC built upon buy-in from a range of banks, MNOs and regulatory actors with very different incentives, raising challenges along the way. In order to convince the commercial banks that the MNOs would not undercut them, it was important for the regulators to be clear that MNOs would be subjected to the same regulatory rules as the banks. Similarly, MNOs were initially worried that the traditional banks would steal their customers, but eventually were convinced that the scheme was in their interests (Interview). Private sector leadership was combined with strong by-in from regulators in Southern Africa, who helped to ensure a level playing field. However, it is worth noting that in other regions, such as East Africa, MNOs are much more powerful than traditional commercial banks due to the earlier expansion of mobile money in the region, and thus different incentives exist.

Box 3: Examples of digital payment systems in the Southern African region

- **The SADC Integrated Regional Electronic Settlement System (SIRESS), renamed Southern African Development Community Real-Time Gross Settlement System (SADC-RTGS)**

The South African Reserve Bank was appointed by the SADC Committee of Central Bank Governors (CCBG) to operate the SIRESS. SIRESS is a regional payment and settlement system, developed to facilitate the transfer of funds for cross-border payments in the SADC region, helps to reduce the costs and improve efficiency of cross-border payments by eliminating the need for corresponding banking for such payments and reducing the time of settlements.

Both banks and non-banks with authorisation to participate in the settlement systems of their home countries operate under the SIRESS.

After being launched in July 2014 for South Africa, Namibia, Lesotho and Swaziland, the system was extended to all commercial banks and central banks in SADC following its success in these countries a year earlier. In 2020, a peak of R6.87 billion was reached. But there have not been many changes in terms of the regulatory framework or system functionality.

There are already over 80 banks (of which 74 are commercial banks and 8 central banks) participating on the SIRESS, and more are expected to on-board the system. Additional currencies might be included.

- **Transactions Cleared on an Immediate Basis (TCIB)**

The South African Reserve Bank acts as a 'hub', relying on a switch operator, meaning that payments are immediately cleared through the Regional Clearing Settlement Operator, BankservAfrica, on a deferred basis (BankservAfrica n.d). Both central banks and financial institutions have their respective settlement accounts with the BankservAfrica. The SADC Payments System Oversight Committee (PSOC) acts as an oversight regulator so the scheme can advance the 'public good' objectives, and keep creating value through ensuring the interoperable access to all participants (AfricaNenda 2022).

The TCIB has increased the level of financial inclusion in the SADC region. By leveraging the SADC-RTGS, the TCIB allows MNOs and other authorised digital financial service providers operating under a national central bank to make low-value cross-border payments to a central bank account. The first real-time cross-border transaction via the TCIB payment service was between Zimbabwe and Namibia (BankservAfrica n.d.).

East Africa has faced unique challenges in developing regional cross-border interoperability, in part due to the strength of its MNOs. East Africa, home to the celebrated M-Pesa, is the region where mobile money is most widely used, with 102 million active accounts registered during 2021 (Statista 2022). In the past, MNOs have taken a zero-sum approach, believing that increasing compatibility between different providers will decrease their competitive advantage (Robb and Vilakazi 2016; Interviews). Experts in this field often emphasise the complexities that digital stakeholders face in terms of finding where to cooperate and where to compete. Previously, the Consultative Group to Assist the Poor (CGAP) led efforts to develop an industry-led scheme for regional interoperability in East Africa in 2018-19. This followed the development of several multilateral industry-led schemes at the national levels in Tanzania, Kenya and Uganda (Cook 2018). CGAP brought together MNOs in an effort to reach a multilateral agreement putting forward shared scheme rules for regional interoperability. Yet only two MNOs signed the final memorandum of understanding due to challenges in balancing different business models, type of technology, as well as differences between the national and group level within the companies. Further, interviewees suggested that a slightly stronger role for regulators in developing the schemes might have been helpful (Interviews).

While developing wholesale interoperable payments at the regional level had generated limited results, it is worth highlighting that multilateral schemes (without a third party facilitating transactions or managing an array of bilateral contracts between providers) were successfully implemented at the national level (for example, Tanzania's MNO and Kenya's PesaLink), opening the way for the later implementation of a national switch. Looking at different schemes across East Africa that were able to help providers balance competition and increase the value for customers, CGAP highlights the importance of the right incentives to scale the number of e-money users performing cross-border transactions (Cook 2018). The Tanzania MNO scheme is presented as a successful case in terms of the volume of transactions, because both the provider and the customer have incentives to transact, which means that even though the receiver pays a third party fee, the consumer does not need to pay additional fees to the provider (Cook 2018). The Kenyan PesaLink, which is a mobile money switch that is connected to all banks operating under the Kenya Bankers Association (KBA) – which acts as a neutral actor promoting cooperation among shareholders – is a real-time cost-effective payment platform that has been able to ensure flexibility for consumers as these transfer funds by using their phone or account number (Kariuki 2020). Since the overarching goal of cross-border interoperability of instant payments is to increase cross-border transactions and to increase financial inclusion, initiatives should focus on schemes that are also financially accessible for consumers that are still using cash (Interviews; Cook 2018).

Each country in the EAC is now in the process of implementing its own switch, and interviewees mentioned that these national switches could be connected in the coming years to create regional interoperability. Regulators in the region are now considering how this might work in practice and may develop a new project to focus on this. At the same time, the above-mentioned 'tripartite' initiative also aims to connect the EAC region with SADC and COMESA (Interviews).

The WAEMU region in West Africa is a monetary union, and thus faces different challenges from the regions mentioned above.[2] The WAEMU Digital Financial Services Interoperability Platform, which is currently being developed, seeks to address the fragmented payment landscape in West Africa, where 80 million mobile accounts are managed by multiple operators that are not interoperable, leading to slower and more costly transfers both domestically and across borders. The initiative aims to raise the estimated financial inclusion rate from 55% to 75% by 2050 by lowering the fees to participate in the system, reduci[3]ng cash-based transactions, and developing the digital economy in the region (Interview). It is the first region to start a project on cross-border interoperability at such a high scale – with 130 banks, 6 MNOs, more than 300 MFIs and 8 treasuries eligible to access the platform. Given the complexity of the project, there were delays in the attainment of technical solutions, while COVID-19 also delayed rollout (AfricaNenda 2021), delaying the launch of the platform to 2023. Yet, interviewees emphasise that the initiative enjoys strong support from key stakeholders, having followed an inclusive project design, including a market-readiness study (Interview).

With the support of a $11.3 million in grant funding from the Gates Foundation, the AfDB is supporting the WAEMU zone's digital financial services platform upgrade and the implementation of interoperability to ensure that both banks and non-banks are part of an integrated payment ecosystem across the region (ADFI n.d.).

West Africa is now one of the fastest growing regions for mobile money (AfricaNenda n.d.), and the WAEMU zone is amongst the most integrated on the continent due to the monetary union and common language. Alongside the above-mentioned platform, other important developments are advancing that are essential to achieving greater financial inclusion in the region. For example, the AfDB has also been working with the BCEAO to facilitate licensing of fintechs. On 14 April 2022, Wave Digital Finance became the first mobile money operator to receive a regional licence from the BCEAO, allowing it to now offer products directly to clients, rather than using the services of intermediary banks to do so as was until now the case (Songne and Velluet 2022). Interviewees also emphasised that the roll-out of e-identity will be essential to ensuring financial inclusion, including facilitating know your customer (KYC) and cross-border payments (Interviews). This points to the importance of considering digital financial services as one component of a digital 'stack' of complementary digital public infrastructure.

Box 4: Examples of digital payment platforms in the West Africa region

- **WAEMU Digital Financial Services Interoperability Platform**

Since 2017, BCEAO and AfDB have been cooperating, with the support of BMGF, to develop the Digital Financial Services Interoperability Platform to achieve the 75% financial inclusion rate.

The system aims to integrate all the financial service providers in the eight WAEMU countries. The platform would allow customers with electronic money accounts or bank accounts in the WAEMU zone to send and receive money from all types of accounts both domestically and across borders.

The first phase of the operationalisation of the Digital Financial Services Interoperability Platform is undergoing. After being postponed due to the COVID-19 pandemic outbreak, the initial launch of the platform in West Africa is expected in 2023 with full deployment and reaching 90 million people by 2022.
The final phase is the set-up phase of the project. Once MNOs have joined this project, it will need to be updated to connect to the PAPSS continental platform.

Private sector buy-in will be vital to developing cross-border interoperable payments across Africa and can play a major role in pushing the conversation forward but regulatory buy-in is also necessary to achieve seamless systems. In particular, the private sector can play an important role in developing more integrated and cohesive infrastructure with payment services that are less expensive, which is important to ensure the financially inclusive use of digital financial services.

What this brief analysis of regional schemes indicates is that very different circumstances underlie the successes and challenges in each region as a result of different political and economic contexts underlying interoperable payments in the different regions. No one model offers a panacea for interoperability at the regional level, but the success of some of these schemes might offer a strong basis on which to build wider continental interoperability.

Conclusion

There is a great deal of dynamism around the development of interoperable cross-border instant payments in Africa, with a large number of actors working towards this goal. Yet, a great deal of work remains to be done to achieve interoperability across the continent. In fact, many of the changes required will need to take place at the level of individual countries and companies, and involve both the public and private sector. Attempts to promote interoperability will need to take account of the political economy dynamics that shape the sector, where lessons can be drawn from regional cooperation in other areas (Byiers et al. 2021). Implementing a continental vision will also require building coalitions for change in individual African countries, which can help to tackle some of the underlying capacity issues, as well as incentives. This is something that the United Nations Better Than Cash Alliance (BTCA) is already working on, developing a network of advocates across the continent to advocate for the kinds of changes necessary.

Some African countries and regions have advanced much further along this road than others, allowing experiences and lessons to be shared, enabling others to draw lessons as they begin to chart the way forward that is best suited given their context. Peer-to-peer learning between African countries and regions could be important in allowing those that are further behind to catch up, if alignment can be found among the incentives of different involved actors. There may also be the potential for successful cases of regional and even inter-regional integration to be scaled up, as TCIB hopes to do in the tripartite area.

There are currently a number of regional and continental initiatives focused on cross-border interoperability, whether private or public sector led. While this demonstrates the dynamism of this space, efforts should be made to understand what blocks greater collaboration and interoperability between the different regional and continental initiatives and to help alter those incentives in a way that entices collaboration towards achieving interoperable payments across the continent. More detailed research into political economy dynamics at the national level could thereby help to uncover some of the blockages and incentives that might move regional integration forward in this area. Existing regional initiatives such as TCIB in SADC and the WAEMU Digital Financial Services Interoperability Platform are building in interoperability, allowing them to be building blocks of a future continental system. This is important as they can provide the building blocks of future continent-wide interoperability.

Similarly, in-built interoperability with international initiatives might help to ensure that African initiatives will ultimately be interoperable beyond Africa. For example, the G20 Roadmap for Enhancing Cross-border Payments aims to enhance cross-border payments globally, setting out ambitious goals and milestones (FSB 2020). Building international interoperability will be vital to help cut the costs for Africans sending remittances from other regions, including Europe, the Middle East and North Africa.

Alongside the roll-out of cross-border interoperable payments, e-identity (e-ID) systems will play a vital role in ensuring equitable and inclusive development. At present, many Africans lack any form of identity and even if they are able to open a mobile money account, they can do little more as long as they do not have a valid means of identification (ID). ID is essential to KYC and to accessing many financial products and loans. Alongside payments systems, it is part of DPI, and when these function smoothly together, they are part of a “digital stack”, which enables “paperless, cashless, remote, and data-empowered transactions.” (ID4D and G2Px 2021: 5).

In a second policy brief, we will look in more detail at the role the EU might play in supporting regional interoperability of instant payments. The EU’s own experiences in developing cross-border interoperability of payments mean that it can potentially be an important partner in this space. While the EU is a very different market, its experience demonstrates what can be achieved within a regional bloc and how, while several interviewees mention the utility of the EU sharing its experiences. Indeed in its 2020 EU Retail Payment Policy, the European Commission (EC) promised to support regional groupings of low- and middle-income countries, and to “facilitate the digitalization of remittances” (EC 2020).

There is currently considerable political and institutional pressure for the EU to ‘get real’ in relation to the follow-up to the EU-Africa Summit, the EU’s stated Digital for Development (D4D) ambitions and support to the roll-out of the AfCFTA in a way that has a tangible benefit for African citizens and partners. The international environment is increasingly competitive with China, India and Pakistan offering support to Africa’s digital transformation, including with their own strategies for pro-poor digital payment systems. The EU should take a smart approach based on supporting African-led initiatives at the national, regional and continental level. This study suggests some initial ideas on how to leverage the EU’s presence in this field:

- Following the programming of the NDICI-Global Europe, the EU is slowly matching its rather broad ambitions with specific and operational programmes. The EU and its member states might consider supporting further national efforts to develop an enabling regulatory environment for cross-border interoperable instant payments through Team Europe Initiatives (EU n.d.). This might include facilitating dialogue between public and private sector actors, providing technical assistance and expertise on specific issues, supporting the development of feasibility studies, and indeed supporting national level upgrading. In addition, financial institutions for development such as the AfDB, EIB and European Development Finance Institutions could incentivise the participation of commercial banks in cross-border interoperability schemes through their investments.
- At regional level, there is a need for more analysis of the political economy dynamics underlying regional interoperability in this area. It is vital to understand the interests and incentives at the national level to better understand what will and will not work at the regional level. This should include investing in research in Africa, including more engagement with African think tanks and academics, as well as bringing EU-AU researchers together. It could also include building political economy analysis into the programming of activities at the national and regional level, to root activities in a solid understanding of the situation on the ground.
- Similarly, given the EU’s own experience in developing interoperability at the regional level, it should step up its engagement with regional level initiatives to provide both technical and regulatory support. As part of the EU’s support to Africa’s vision for economic integration through the African Continental Free Trade Area, the Directorate General for International Partnerships (DG INTPA) should work with EU delegations to

facilitate access to the relevant expertise within the Directorate General for Financial Stability and Capital Markets (DG FISMA). It could also facilitate contacts with other actors that are relevant in this area, including peer-to-peer learning between African countries and blocs, or with other developing countries such as India that have developed quite advanced digital public infrastructure, including e-ID and e-payments.

- A number of EU member states are already doing very good work to facilitate cross-border interoperable payments, e-commerce and wider digitalisation of trade in Africa. Yet, this work is poorly reflected in the current work of the EU's D4D Hub. France and Luxembourg are already supporting the work of ADFI, while Estonia is a world leader on e-identity. Yet, the interlinkages between these issues are underexplored and should be further developed in the EU's approach to these questions. There is scope and necessity to scale D4D engagement given also the link to the EU's wider digital ambitions and its desire to underpin the AU-EU partnership with more tangible actions.
- Once the WAEMU Digital Financial Services interoperability platform is implemented there will be opportunities for the EU to assist with the development of e-identity, which will in turn be important for ensuring the roll-out of inclusive digital financial services, allowing verification of cross-border payments and digitalisation of KYC. This might include financial and technical support by the EU institutions and member states to African policymakers in building these systems, but also specifically supporting central banks in developing the use of e-identity for KYC and wider financial sector use.

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Endnotes

[1] The Transform Africa Summit held in Kigali, Rwanda on 28-31 October 2013 culminated in the adoption of the Smart Africa Manifesto document by seven African Heads of States (Rwanda, Kenya, Uganda, South Sudan, Mali, Gabon, Burkina Faso) in which they committed to provide leadership in accelerating socio-economic development through ICT. The SMART Africa Manifesto was endorsed by all Heads of State and Government of the AU at the 22nd Ordinary Session of the Assembly of the African Union in Addis Ababa. The Smart Africa Alliance has since grown to include 30 African countries that represent 700+ million people (Smart Africa).

[2] WAEMU is made up of Benin, Burkina Faso, Côte D'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. These states are also members of ECOWAS but have a monetary union and all use the CFA Franc. Also known by its French acronym, UEMOA.

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