A truck leaves the border post at Machipanda, Mozambique.

DIGITAL JOURNEYS

FREEING FOREIGN EXCHANGE IN AFRICA

The continent seeks to ease cross-border payments in a bid to boost trade

Chris Wellisz

Making payments from one African country to another isn't easy. Just ask Nana Yaw Owusu Banahene, who lives in Ghana and recently paid a lawyer in nearby Nigeria for his services.

"It took two weeks for the guy to receive the money," Owusu Banahene says. The cost of the $100 transaction? Almost $40. "Using the banking system is a very difficult process," he says.

His experience is a small example of a much bigger problem for Africa's economic development—the expense and difficulty of making payments across borders. It is one reason trade among Africa's 55 countries amounts to only about 15 percent of their total imports and exports. By contrast, an estimated 60 percent of Asian trade takes place within the continent. In the European Union, the proportion is roughly 70 percent.

"When the payments are unlocked, invariably you are unlocking trade between African countries," says Owusu Banahene, the Ghana country manager for AZA Finance, which handles foreign currency transactions for companies doing business in Africa.

Cross-border payments are just one of the many barriers to trade in Africa. Others range from high tariffs and cumbersome border procedures to divergent commercial regulations and congested roads.

A trade agreement that went into effect in 2021 aims to lower some of those hurdles and create a vast trading area from Casablanca to Cape Town, encompassing 1.3 billion people. In its first phase, the African Continental Free Trade Area (AfCFTA) agreement would gradually eliminate tariffs on 90 percent of goods and reduce barriers to trade in services. In later stages, it would harmonize policies on investment, competition, e-commerce, and intellectual property rights.

The AfCFTA's backers say lowering trade barriers will supercharge commerce, attract foreign direct investment, and boost economic growth. A recent World Bank study estimates that the deal, if carried out in full, would raise real income by 9 percent and lift 50 million people out of extreme poverty by 2035.

Working in tandem with the agreement will be the Pan African Payment and Settlement System (PAPSS), a project of the AfCFTA secretariat and Cairo-based Afreximbank, which specializes in trade finance. The system aims to link African central banks, commercial banks, and fintechs into a network that would enable quick and inexpensive transactions among any of the continent's 42 currencies.

As of 2017, only about 12 percent of intra-African payments were cleared within the continent, according to the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The rest are routed through overseas banks, mostly in Europe and North America. As a result, an African currency must first be exchanged for dollars, pounds, or euros and then swapped a second time for a different African currency. That adds an estimated $5 billion a year to the cost of intra-African currency transactions.

Owusu Banahene says his $100 payment to his lawyer was relatively straightforward, because banks in both Ghana and Nigeria have correspondent banking relationships with overseas counterparts that use dollars in foreign currency transactions. But in the case of Ghana and Côte d'Ivoire, transactions involve two overseas banks—because Ivoirien institutions have ties to banks that use the euro.

Most of the cost of Owusu Banahene's transaction consisted of the standard $35 fee charged by SWIFT. As a proportion of the amount of the transaction, costs are typically much lower, though still considerable, amounting to as much as 4 to 5 percent.

Still, the cost of small-value transactions can be a barrier to the small cross-border traders who account for a significant portion of intra-African commerce. Many of them don't have bank accounts to begin with, and even those who do often exchange money on the black market, which can involve the risk of being robbed or receiving counterfeit currency, says Richard Adu-Gyamfi, senior advisor at the AfroChampions Initiative, which seeks to nurture African multinational enterprises.

There are other obstacles. One is the volatility of African exchange rates. In the case of Ghana, it took about ¢6 to buy a dollar in mid-July 2021; a year later, the cost was ¢8, a depreciation of 25 percent. Volatility increases the risk, and therefore the cost, of foreign currency transactions.

Another hurdle: some African central banks, seeking to support the value of their currencies, ration dollars and other hard currencies by holding regular auctions. This has been a source of frustration for Sasha Naryshkine, the operations manager for Kuza Africa, which exports avocado seedlings from Tanzania.

"We have sold seedlings in Angola and have had to wait for payment simply because the central bank in Angola didn't have enough dollars for people to settle their trade," he says. Delays and uncertainty make it difficult to decide when to plant avocados, he says, and put a damper on business.

One of his customers is Lourenço Rebelo, commercial director of FertiAngola, a dealer in agricultural products ranging from seedlings to tools. Rebelo says delays in getting access to foreign currencies mean some shelves stay empty, resulting in lost sales.

"We're a one-stop shop," he says. "So if I'm out of fertilizers, for instance, [customers] will not come in, and the other stuff will not be selling."

PAPSS aims to solve such problems by settling transactions in local African currencies, obviating the need to convert them into dollars or euros before swapping them for another African currency. In essence, PAPSS would eliminate costly overseas intermediaries. The system aims to complete transactions in less than two minutes at a low though unspecified cost.

"This will be a game changer for trade on the African continent," says Wamkele Mene, secretary general of the AfCFTA.

Still, PAPSS faces hurdles of its own. The central banks at the heart of the system will have to reconcile differences in national regulations, infrastructure, and oversight systems. Deciding how to settle transactions among a number of volatile currencies could also prove difficult.

Formally launched in January 2022, the system had yet to complete a single commercial transaction as of midsummer. It has integrated six central banks, with more on the way, and 16 commercial banks, says John Bosco Sebabi, deputy chief executive officer of PAPSS.

Sebabi concedes that awareness of the system is low in the business community. He says Afrexim and PAPSS have a joint marketing campaign under way, although he says he cannot provide details.

"While implementing a project of this magnitude, there are always glitches along the way," he says. "However, we are set to have commercial bank transactions very soon. We cannot say today or tomorrow, but very soon." FD

CHRIS WELLISZ is a freelance writer and editor.

PHOTO: GIDEON MENDEL / CORBIS VIA GETTY IMAGES