A smoother payments process can boost intra-African trade
By Hugo Smit, Head of Africa South

Africa's economic rise since the beginning of the century has been impressive. The continent is one of the most buoyant regions in the world and the African Development Bank (AfDB) expects it to grow almost 5% this year.

The story of Africa's intra-continental trade is less rosy, however. Institutions such as the World Bank and AfDB reckon that African countries only carry out about 15% of their trade with one another. My organisation, SWIFT, using its data on cross-border payments, thinks the figure is slightly higher at 23%.

Whatever the case, intra-African trade is low and ranks among the smallest levels of intra-regional trade globally. By contrast, almost 70% of the European Union's trade takes place within the bloc.

Changing this is crucial to Africa's development. Boosting trade on the continent can create jobs for some of the millions of Africans that lack them and help to encourage more investment.

There are plenty of reasons that Africa trades so little with itself. One of the main ones is that African countries have long focused on producing raw materials, the customers for which tend to be found in places such as Asia, Europe and the US. Africa produces little of the manufactured and processed goods that are in high demand on the continent. As such, these often have to be imported from overseas.

One of the lesser-talked about factors is the poor quality or absence of regional payments systems. Without these, cross-border payments are expensive and sometimes slow, which is hardly conducive to fostering regional trade.

One way to understand how this affects businesses is to imagine what would happen if a company in Johannesburg imported several truckloads of apples from Gaborone in Botswana. The apples would only move the 350km between the two cities. But the money used to pay for the imports would probably take a much longer route. Typically, the transaction would be settled in dollars, with the payment being routed from South Africa to Botswana via a clearing bank in New York. The cost borne by the banks during this process would ultimately be passed on to the importer or exporter, or both.

To address this problem, the Southern African Development Community (SADC) last year launched an electronic payments platform for the bloc. Called the SADC Integrated Regional Electronic Settlement System (SIRESS), it is designed to allow transactions among banks in member countries to be settled in real time and without the need for the funds to flow through third-party clearing banks.

SIRESS has so far been highly successful. Seven of SADC's 15 members, including South Africa, have joined it and another three are scheduled to do so in the next few months. There are around 40 commercial banks participating and I expect that number to increase quickly.

A large volume of trade-related transactions is already being settled through the system, for which the rand is the main currency, given the size of the South African economy relative to others in SADC.

The next phase for SIRESS is to allow it to accommodate low-value, or retail, transactions such as remittances. As long as commercial banks have the necessary systems in place, this should happen by the end of September. If so, I believe individuals and businesses will regularly use SIRESS to transfer small sums of money within SADC.

SIRESS will not just eliminate unnecessary banking costs. It will also give governments and economists a more accurate picture of the levels of intraregional trade. With half of cross-border African payments being made in dollars – and the flows thus going to the US, at least initially – it is difficult to assess African trading patterns, which makes it tough for policy-makers to forge strategies to boost regional commerce.

Moreover, I think SIRESS will lead to greater financial inclusion. By eventually being able to handle remittances and small transactions, it will help bring a lot of flows that are currently cash-based into the formal financial system.

The big question is whether SIRESS can bring about greater trade within SADC. There is no guarantee that it will. Trade is ultimately determined by economic fundamentals – supply and demand. But it has already begun to make the cross-border payments process easier and cheaper. That can only be good in the long-term for encouraging greater trading between southern African countries.

There are barriers to the system's success. In the absence of a single currency in the SADC region, exchange rate costs will remain. And not all members will necessarily be happy to subscribe to a payments platform on which the rand predominates.

But I am confident that the political will to bolster financial integration within SADC, including through the development of SIRESS, exists. Politicians and central bankers recognise the benefits of simplifying the payments process for cross-border trade. Doing so may not in itself lead to more regional trading, but it is a very important step in that direction.