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| AACB | Association of African Central Banks |
| AfCTA | African Continental Free Trade Area |
| CEMAC | Central African Economic and Monetary Community |
| COMESA | Common Market for Eastern and Southern Africa |
| EAC | East African Community |
| PSWG | Payment Systems Integration Working Group |
| SADC | Southern African Development Community |
| TOR | Terms of Reference |
| UEMOA | Union Economique et Monetaire Quest Africaine |
| UNCTAD | United Nations Conference on Trade and Development |
| WAEMU | West African Economic Monetary Union |
| WAMZ | West African Monetary Zone |

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

TERMS OF REFERENCE

PAYMENT SYSTEMS INTEGRATION WORKING GROUP

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Acronyms

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1.0 Background/ Introduction

Africa has a huge domestic market with significant economic opportunities. However, it currently constitutes 2.9 per cent of the world production and 2.6 per cent of the world trade, though it constitutes 16.3 per cent of the world population. Enormous development

gaps also exist between African and developed countries, as well as among African countries. Poverty remained prevalent in Africa and home for 32 out of 48 Least-Developed Countries (UNCTAD, 2019).

Informal regional trade still persists in Africa on account of inadequate trade related infrastructure, under-developed cross-border payment and settlement systems, as well as settlement in foreign currency. Payments for Intra - African trade go through circuitous routes and usually involve a country outside the continent, before it is received by the beneficiary country which could be a neighbor. These inefficiencies increase the cost of funds transfer within the continent, thus increasing the prices of goods and services; constrain trade among African countries; and enhance the appeal of informal funds transfer channels associated with money laundering and terrorism financing risks.

To address these structural payment systems challenges, many regional blocs such as SADC, COMESA, WAMZ, CEMAC, EAC and UEMOA/WAEMU pursued various initiatives to modernize their regional payment systems and also develop infrastructure, including legal frameworks to govern payment operations. These fragmented systems and heterogeneity complicate intraregional trade, cross-border payments and also make cross border banking transactions difficult.

Intra-African trade however improved marginally in recent years to 15.4 per cent though Europe and Asia continued to be the continent's key trade partners (UNCTAD, 2019). In furtherance of its objective, African Union in its Agenda 2063 committed itself to increase intra –African trade from 12% in 2013 to 50% by 2045 through development of an integrated payment infrastructure, among other measures. The adoption of the agreement establishing the African Continental Free Trade Area (AfCFTA) in 2018, which to date has been signed by 54 African countries, has ambitious long-term goals of deepening integration among African Union Member States and building a prosperous and united Africa.

In line with the approval of the Assembly of AACB Governors in August 2018, an inter-regional payment system integration is being put in place to achieve the following:

- Legal reforms for modernization and integration of African payment systems;

- Address technical prerequisites for modernization and integration of African payment systems;
- Identify components of a multilateral clearing mechanism for effective African payment systems; and
- Develop institutional framework for the development and interconnection of African payment systems.

The proposed payment systems integration project therefore seeks among others to:

- Engender intra – African trade and investment flows as well as formalize some of the unaccounted trade on account of prevalence of informal cross- border trade in Africa;
- Offer an alternative to the existing relatively high cost and lengthy correspondent banking relationships, with the view to engendering trade and other economic activities among member countries through a lower cost of payment, clearing and settlement system;
- Support the objectives of the African Continental Free Trade Agreement, of which integration of African cross border payments infrastructure is an enabler;
- Minimize the duration and time variability of cross border payments within the African region; and
- Reduce cost of cross border payments, liquidity requirements of commercial banks for correspondent banking relationships and strengthen central banks’ cross border payment systems oversight, through effective reporting and prudent risk management.

2.0 Legal Nature

2.1 The Payment Systems Integration Working Group (PSIWG) is established by the African Inter-regional Payments Integration Task Force, to oversee the development and management of the implementation of the Inter-Regional Payment Systems Integration Framework.

2.2 PSIWG shall operate under these Terms of Reference and any other directions given by the Task Force

3.0 Objectives and Mandate

3.1 The Payment Systems Integration Working Group shall develop a framework for short term routing of inter-regional payment flows using existing payment infrastructures.

3.2 The PSIWG shall develop a framework for establishment of a new integrated payment infrastructure that facilitate inter-regional payment flows.

3.3 The Payment Systems Integration Working Group shall collect supporting data, undertake studies or new research and other information to support its recommendations.

3.4 In fulfilling its mandate, the PSIWG shall be guided by the following principles and considerations:

- (a) a coherent policy framework in line with the African Union Heads of State and Government and the Assembly of AACB Governors decision on development of an inter-regional payment integration system;
- (b) a comprehensive, robust and up-to-date framework for the purpose of addressing the needs of African entrepreneurs and consumers and being responsive to the dynamic nature of the payment ecosystem;
- (c) importance of clarity, transparency and consistency;
- (d) adoption of decisions by consensus;
- (e) adequate flexibility of the mechanism, regular evaluation and adjustment as may be necessary;
- (f) deliberations in good faith, and commitment to the AACB's objectives.
- (g) have regard to the policy objectives relating to safety, soundness, efficiency, integrity and transparency of payment systems, as well as the reduction of systemic risk, promotion of financial stability, financial inclusion, competition, access to the payment system and consumer protection within the payment system;
- (h) have regard to the constantly evolving payment landscape and provide an enabling environment for innovation in payments;

- (i) have regard to how payment infrastructures support trade facilitation, collaborating closely with the banking industry, payments industry and the business community more broadly, to understand the specific trade requirements in the African continent;
- (j) be inclusive and representative of stakeholders within the continent;
- (k) act in the best interest of the payment system and not in the interest of individual stakeholders, associations or groups;
- (l) consult with stakeholders in the payment system, other regulatory authorities and other bodies that have interest in payment matters;
- (m) avoid conflicts of interest;
- (n) act fairly and reasonably in all the deliberations and decisions of the working group
- (o) work in consonance with the goals of the African Union Agenda 2063

4.0 Composition of the Payment Systems Integration Working Group

4.1 Members of the Payment Systems Integration Working Group shall be nominated by their central banks or other regional institutions, based on an open nomination coordinated by the AACB Secretariat and selected by the Task Force.

4.2 The PSIWG shall consist of 25-30 expert stakeholders from sub-regional AACB committees, African Union Commission, regional economic groups, development partners, commercial banks and regulatory authorities, within and outside of central banks and selected by the Task Force.

4.3 The PSIWG shall be selected by the Task Force based on the following selection criteria:

- (a) **Expertise:** Payment Systems Integration Working Group members shall have deep payment systems integration expertise in the areas of policy and regulation, technical requirements, industry standards, settlement and clearing mechanisms, business models, and operating rules;

- (b) **Experience:** The PSIWG members shall have specific experience working with high-value payment systems, either as a developer, operator, regulator or participant. Experience working on payment system integration initiatives is preferred;
- (c) **Representation:** Payment Systems Integration Working Group membership shall be representative of a broad range of industry stakeholders;
- (d) **Commitment:** Payment Systems Integration Working Group members shall have the desire and available time to perform their responsibilities;
- (e) **Relationships:** The PSIWG members shall have a strong network they can leverage to help achieve the Task Force goals.

5.0 Appointment of Chairperson and Deputy Chairperson of the PSIWG

5.1 The Payment Systems Integration Working Group shall elect a Chairperson in line with its voting procedures outlined in section 13.0

5.2 The elected PSIWG Chairperson shall nominate a Deputy Chairperson.

5.3 The nominated Deputy Chairperson of the PSIWG shall be approved by the Working Group members in line with the voting procedures outlined in section 13.0

6.0 Tenure of the PSIWG Chairperson

6.1 The Payment Systems Integration Working Group Chairperson has no set of term of duration on account of continuity.

6.2 The Chairperson of the PSIWG may be replaced by the Working Group in line with the voting procedures outlined in section 13.0 or at the discretion of the Task Force.

6.3 The Deputy Chairperson shall be replaced when the Payment Systems Integration Working Group Chairperson is replaced.

7.0 Responsibilities of the PSIWG Chairperson

7.1 Responsibilities of the Chairperson of the Payment Systems Integration Working Group shall include the following:

- (a) convening, chairing and preparing the agenda for Payment Systems Integration Working Group meetings;
- (b) providing strategic direction to the Payment Systems Integration Working Group;
- (c) coordinating major analyses, studies and reports, and working with the Task Force to secure necessary resources and funding;
- (d) monitoring the progress of the Payment Systems Integration Working Group and working with the Task Force to address key issues;
- (e) representing the Payment Systems Integration Working Group and being the principal spokesperson for the Payment Systems Integration Working Group;
- (f) reporting to and corresponding with the Task Force.

8.0 Responsibilities of the PSIWG Deputy Chairperson

8.1 The Deputy Chairperson of the PSIWG shall assist and support the Chairperson in the attainment of the working group objectives and deliverables

8.2 When the Chairperson of the Payment Systems Integration Working Group is unable to attend a Working Group meeting, the Deputy Chairperson shall chair the meeting.

9.0 Specific Tasks and Deliverables of the PSIWG under Phase 1

9.1 The PSIWG shall under Phase 1 (4-12months) undertake the following activities and deliverables:

- (a) take stock of the regulatory environment, relevant institutions, regulatory bodies, payments infrastructures, technical standards and economic profiles of AACB member countries and AACB sub-regional committees;
- (b) map demand for cross-border payment flows to identify high volume trade corridors to interconnect in the short-term;
- (c) Conduct study to identify current and potential future inter-regional payment system models that would enable pan-African, cross-border payments;

- (d) design regulatory, technical and institutional requirements for short-term integration models and identify key gaps;
- (e) synthesize findings into framework document, including a short-term implementation plan and list of long-term design options, to present to the Task Force for approval and subsequent deliberations at the AACB Governors meeting in 2020 (through the AACB secretariat), and approval through the relevant AU organs.

The main deliverables of the PSIWG under Phase 1 are as follows:

- (a) produce detailed payment systems and enabling environment fact base;
- (b) produce framework document including attractive model(s) and implementation plan for integrating inter-regional payment systems across Africa.

10.0 Specific Tasks and Deliverables of the PSIWG under Phase 2

10.1 The PSIWG shall under Phase 2 (13-30months) undertake the following activities and deliverables:

- (a) develop business rules and conduct cost-benefit analyses for each of the model(s);
- (b) support countries and/or regions in filling regulatory, technical and institutional gaps;
- (c) pilot model(s) in high trade volume corridors to test feasibility; and
- (d) begin to execute short-term implementation plan more broadly across the continent (pending success of pilot programs).

The main deliverables of the PSIWG under Phase 2 are as follows

- (a) initiate pilots of payment system(s) that enable inter-regional payment flows leveraging existing infrastructures;
- (b) report the success and scalability of pilot programs.

11.0 Activities and Deliverables of the PSIWG under Phase 3 and running concurrently with Phase 2

11.1 The PSIWG shall under Phase 3 (13-36months) undertake the following activities and deliverables:

- (a) design regulatory, technical and institutional requirements and identify gaps for the existing model(s);
- (b) build high-level business cases for each of the model(s) to test feasibility;
- (c) hold series of workshops to determine model(s) to move on to implementation phase;
- (d) craft governance model and business rules for selected model;
- (e) develop long-term implementation plan and review with AACB.

The main deliverables of the PSIWG under Phase 3 are as follows

- (a) select long-term model(s) to more fully facilitate inter-regional payment flows;
- (b) evolve an implementation plan to roll-out selected model(s) across the continent.

12.0 Meetings of the PSIWG

12.1 The Payment Systems Integration Working Group shall meet at least quarterly in a year.

12.2 All PSIWG meetings shall be held at a time and place decided upon by the Chairperson.

12.3 The Payment Systems Integration Working Group Chairperson may, in consultation with the Deputy Chairperson(s), call a special meeting at any time and place determined by the Chairperson.

12.4 The Chairperson of the Payment Systems Integration Working Group shall preside as Chairperson at every meeting of the Working Group.

12.5 When the Chairperson of the Payment Systems Integration Working Group is unable to attend a Working Group meeting, the Deputy Chairperson shall chair the meeting on his/her behalf.

12.6 An agenda confirming the venue, time and date of the meeting, together with draft minutes of the previous meeting and other supporting documentation, shall be circulated to members, and other invitees where applicable, at least seven (7) business days prior to each meeting of the Payment Systems Integration Working Group.

12.7 The minutes shall be formally approved by the Payment Systems Integration Working Group at all scheduled meetings.

12.8 All notices to members of Payment Systems Integration Working Group shall be in writing, which includes notices submitted through electronic means such as email.

13.0 Voting

13.1 Every Payment Systems Integration Working Group member shall be entitled to one (1) equal vote during voting on a resolution.

13.2 All resolutions put to a vote at the meetings of the Payment Systems Integration Working Group shall pass by consensus;

13.3 When consensus is not reached, a simple majority vote will be taken by members entitled to vote;

13.4 In a case of an equality of votes, the Chairperson of the Payment Systems Integration Working Group shall be entitled to a casting vote (double vote) to decide the outcome.

13.5 When in the opinion of the Chairperson, it is in the interest of the members for a business of the Payment Systems Integration Working Group to be conducted on the basis of an electronic vote or otherwise, the Chairperson may circulate the proposed resolution and all relevant information to members entitled to vote.

13.6 Resolutions adopted by means of an electronic vote, or otherwise, shall be effective as though they had been passed at a duly convened and constituted meeting of the Payment Systems Integration Working Group.

14.0 Administration and Secretariat

14.1 A Payment Systems Integration Working Group Secretariat shall be formed consisting of two resources. One resource shall be sourced from the Payment System Integration Working Group's Chairperson and one shall be sourced from the Deputy Chairperson.

14.2 The secretariat of the PSIWG shall provide supportive services to the Payment Systems Integration Working Group, including both project management and administrative support.

14.3 The Working Group Secretariat shall work in close coordination with the AACB and the Task Force Secretariat on all matters.

14.4 The Secretariat shall through electronic means, serve meeting notices to members at least five (5) business days prior to scheduled meetings of the Working Group.

14.5 Draft minutes shall be prepared by the Secretariat and circulated to the members of the Payment Systems Integration Working Group within 5 working days after the meeting.

14.6 Members shall provide comments on the accuracy of the circulated minutes, within a period of seven (7) business days from date of dispatch of the minutes.

15.0 Liabilities

15.1 The PSIWG members and Chairpersons, in his or her personal capacity, shall not be liable for any loss or damage suffered by any person, stakeholder, institution or body as a result of the following:

- (a) notice or publication of any scheduled or rescheduled Task Force or Working Group meeting not reaching, or not coming to the attention of any member on time or at all;
- (b) notification of any cancellation of any scheduled Task Force or Working Group meeting not reaching, or not coming to the attention of any stakeholder on time or at all;

- (c) any time delay experienced or any administrative or technical problem that might present itself during any Task Force or Working Group meeting, or in pursuit of finding a solution to, or addressing a specific payment system matter;
- (d) any decision taken by members of the PSIWG in terms of this Terms of Reference (TOR).

15.2 No liability shall be attached to the AACB, any officer or employee of the AACB, the PSIWG Chairperson or any member of the Working Group in his or her personal capacity for any loss sustained by or damage caused to any person, as a result of anything done or omitted by the AACB, any officer or employee of the AACB, the PSIWG Chairperson or any member of the Working Group in the bona fide performance of any function of the Working Group in terms of this Terms of Reference.

15.3 The Terms of Reference binds every member of the PSIWG.

15.4 Any disputes arising among members of the PSIWG shall be resolved amicably in good faith. The Taskforce Chairperson shall be the ultimate arbiter on disputes arising within the Working Group.

16.0 Conduct

16.1 Payment Systems Integration Working Group member shall conduct the working group business with uncompromising integrity and fairness, so as to promote complete trust and confidence in the payment system and the financial sector.

16.2 Each member of the Payment Systems Integration Working Group shall subscribe to the terms set out in this ToR.

17.0 Disclosure of Information

17.1 A member of the Payment Systems Integration Working Group shall not disclose confidential, restricted or non-public information obtained directly or indirectly from the PSIWG to any person, in any manner

17.2 A Payment Systems Integration Working Group member may disclose information to the organization that he/she represents, to the extent necessary to enhance or contribute to the effective exercise of the Working Group's functions; and if this organization is advised of the confidential nature of such information and the terms of reference of this Working Group.

17.3 A Payment Systems Integration Working Group member shall take all reasonable measures necessary to protect information obtained. These measures must be similar or greater than the measures that Payment Systems Integration Working Group member take to protect his/her organizations' own proprietary information.

17.4 When a Payment Systems Integration Working Group member is found to have contravened Sections 16.1 and 17.3 whether intentionally or inadvertently, the Task Force Chairperson shall consider the circumstances surrounding the contravention and may impose action(s) including, but not limited to, verbal warnings, cessation of membership or disqualification from the Payment Systems Integration Working Group.

18.0 Amendment of the Terms of Reference

18.1 The ToR may be amended by a resolution passed by two thirds majority of the members entitled to a vote at a meeting of the Task Force

19.0 Dissolution of the Payment Systems Integration Working Group

19.1 The Payment Systems Integration Working Group may be dissolved by the Task Force in consultation with the AACB.