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PAPSS – What Is It Good For? Probably Plenty

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Recommendations

- Central banks, Afreximbank and the AfCFTA Secretariat should foster transparent collaboration and advocacy to increase PAPSS adoption.
- AU member states and RECs should accelerate initiatives to harmonise regulations across African countries to facilitate smoother cross-border transactions.
- AU member states in collaboration with the private sector must invest in digital infrastructure to ensure broader access to PAPSS, particularly in underserved areas.
- AU member states and RECs must address currency conversion challenges by promoting monetary convergence and transparent exchange rate mechanisms.
- Robust cybersecurity and risk management practices should be implemented to secure PAPSS transactions.

Executive summary

The Pan-African Payment and Settlement System (PAPSS) is an innovative financial infrastructure designed to streamline cross-border payments across Africa using local currencies. Spearheaded by Afreximbank and supported by the African Continental Free Trade Area (AfCFTA) Secretariat, PAPSS aims to enhance intra-African trade by reducing reliance on foreign currencies, lowering transaction costs and increasing financial inclusion. Despite its promising potential, PAPSS faces challenges, including interoperability issues, low awareness and varying regulatory frameworks across countries. Addressing these issues through harmonised regulations, digital infrastructure development and robust cybersecurity measures is essential for the system's widespread adoption. PAPSS offers opportunities for greater economic integration, transparency in trade transactions and access to new markets, especially for small and medium-sized enterprises. However, successful implementation will require sustained collaboration between central banks, Afreximbank and regional economic communities to foster a harmonised financial ecosystem. Enhanced advocacy, transparency in transaction data and stronger risk management practices are also critical to unlocking PAPSS's full potential for driving Africa's economic growth

Introduction

In the intricate web of modern finance, payment and settlement systems form the backbone of economic activity, ensuring smooth fund transfers and market stability. Historically, these systems have evolved to support various transactions, from individual purchases to large corporate trades, with banks playing a central role as intermediaries. Banks facilitate the exchange of funds, manage risks and provide the infrastructure necessary for secure and reliable transactions, thereby maintaining the integrity and efficiency of financial markets. The Bank for International Settlements and the Financial Stability Board (FSB) underscore the critical role of banks in these processes.

In Africa, payment systems are primarily overseen by the Association of African Central Banks (AACB), which plays a key role in coordinating and harmonising these systems across the continent. Despite this oversight, cross-border payments in Africa have traditionally faced significant challenges, including high transaction costs, slow processing times, limited access and a lack of transparency. Addressing these issues by implementing faster, cheaper, more transparent and inclusive payment solutions could significantly enhance economic growth, boost intra-African trade and promote development and financial inclusion across the continent.¹ According to the FSB, cross-border payments sit at the heart of international trade and economic activity.²

1 FSB, 'Cross-border Payments.'

2 FSB, 'Cross-border Payments.'

The motivation and necessity for, and intended impact of, PAPSS

Intra-African trade holds much potential, with digital trade and e-commerce, for example, constituting important opportunity areas. However, trade among African countries faces many traditional impediments, such as logistical shortcomings, low internet penetration rates, limited access to finance and weak data management and governance. Africa also faces challenges with the interoperability of payments, including fragmentation of payment systems across different countries and regions, a lack of standardisation and harmonisation in legal and regulatory frameworks, and limited availability of digital infrastructure, such as broadband connectivity and mobile networks. Addressing these challenges could help to enhance intra-African trade.

Interoperability in the context of payments refers to the ability of different products or systems to work together without encountering obstacles. Specifically, in payments, interoperability enables users to conduct electronic payment transactions conveniently, affordably, swiftly, seamlessly and securely. Fundamentally, interoperable payment systems facilitate smooth interaction between two or more proprietary platforms, allowing providers to exchange payment transactions. This ensures that users can access and utilise payment services efficiently across various platforms, enhancing convenience and accessibility in the payments landscape.³

There are various initiatives, such as the regional payment and settlement systems implemented at a regional economic community (REC) level, which aim to address the interoperability challenges in African regions. PAPSS aims to facilitate interoperability among these regional systems. In October 2023, a multi-sector focus group, hosted by Tutwa Consulting Group under a USAID-funded Africa Trade and Investment Program, explored the challenges and opportunities related to interoperability in cross-border payments, particularly within the context of PAPSS.⁴ Overall, the programme underscored the importance of harmonised and standardised payment systems across the continent to benefit from digital trade and e-commerce under the AfCFTA.

PAPSS is a financial market infrastructure (FMI) that enables instant payments across Africa, in local currency. Led by the African Export and Import Bank (Afreximbank) and supported by the AfCFTA Secretariat, PAPSS is expected to boost intra-African trade through the transformation and facilitation of payments, clearing and settlement for cross-border transactions.⁵ PAPSS launched its pilot phase in the West African Monetary Zone (WAMZ) in 2022 and is expected to be fully operational by 2025. However, concerns

3 Roger Tafotie, 'The Pan-African Payment and Settlement System (PAPSS),' *Interoperability in Fast Payment Systems* (Focus note, World Bank, Washington, DC, 2021).

4 Hosted by Tutwa Consulting Group under the Africa Trade and Investment Program funded by USAID.

5 Afreximbank, 'Pan-African Payment and Settlement System Launched by President Akufo-Addo Foreseeing \$5 billion Annual Savings for Africa,' press release, January 13, 2022.

about the feasibility of the proposed PAPSS timeline have arisen due to what has been called a premature launch without a functioning system and the lack of a demo during the WAMZ pilot, which relied on limited PowerPoint presentations and failed to motivate stakeholders.⁶

PAPSS was inspired by the desire to enhance intra-African trade by addressing the challenges related to cross-border payments. Traditionally, transactions between African countries have been undertaken in US dollars and Euros, thereby requiring central and commercial banks to hold (excess) reserves of these foreign currencies. In contrast to global trade, intra-African transaction costs are higher and processing times longer. This is sometimes attributed to a reliance on financial policies and systems outside the continent.⁷ PAPSS aims to streamline intra-African transactions by allowing payments to be made in local (African) currencies. This has the potential to compete with international payment systems and close the gap in transaction costs between global and continental trade.⁸ Since PAPSS makes payments in local currencies, there is a case to be made for commercial banks being able to reduce their reserve holdings. Nonetheless, central banks will still bear the risks and costs of exchange rate depreciation against major (non-African) trading partners.⁹

PAPSS is a crucial intervention to support the AfCFTA, as it encourages African countries to trade more with each other – assuming lower transaction costs. The potential value that will be unlocked by PAPSS includes increased trade volumes, greater economic integration and enhanced financial inclusion. In addition, it may open new market opportunities for small, medium and micro enterprises (SMMEs), including informal, cross-border traders. PAPSS also helps to improve liquidity management for commercial banks and provides better oversight and transparency in cross-border trade, assisting policymakers to track small-scale transactions that often go unrecorded.¹⁰ Through these mechanisms, PAPSS could play an important role in driving economic growth and development across the continent.

While PAPSS presents a key initiative to address various interoperability issues facing the continent, more needs to be done in terms of advocacy and sensitisation on the initiative. Efforts are being made by various stakeholders, including governments, central banks, commercial banks, payment service providers, corporates, SMMEs and traders involved in cross-border transactions, to address the issues related to interoperability and payment systems. The AfCFTA market would benefit greatly from harmonisation of these efforts, resulting in easier, more consistent trading processes.

6 Interview with digital infrastructure official, June 10, 2024.

7 PAPSS, 'Connecting Payments. Accelerating Africa's Trade'; International Trade Administration, 'Pan-African Payment and Settlement System,' press release, May 11, 2022.

8 'New Payment System Could Boost Intra-African Trade by Billions of Dollars,' *International Institute for Sustainable Development*, February 14, 2022.

9 Interview with central bank official.

10 Brookings, *Foresight Africa 2024*, Top Priorities for the Continent in 2022.

Institutional frameworks supporting the implementation of PAPSS

PAPSS is underpinned by several key institutional frameworks and agreements designed to facilitate its adoption and integration across Africa. These frameworks are crucial for ensuring the system's effective operation and broad acceptance by financial institutions and businesses.¹¹

AfCFTA Agreement

The primary institutional framework supporting PAPSS is the AfCFTA. Afreximbank and the African Union (AU) have announced PAPSS as a key instrument for implementing the AfCFTA Agreement. The AU Assembly has instructed Afreximbank and the AfCFTA Secretariat to finalise and implement PAPSS, recognising its importance in enhancing trade and economic integration within Africa. These agreements provide a solid foundation for the adoption and utilisation of PAPSS across the continent.¹²

The AU

The AU has been instrumental in endorsing and promoting PAPSS. The high-level endorsement from the AU encourages member states to adopt and integrate PAPSS, reinforcing its significance as a tool for facilitating intra-African trade. PAPSS supports the AfCFTA by addressing the issue of fragmentation of African payment systems. Notably, the AU has indicated the need to address the continent's overreliance on external finance, emphasising the need for Africa's financial self-reliance.¹³ PAPSS could help deliver this aspiration as local currencies are used in cross-border payments.

Central bank collaboration

A guiding agreement among African central banks facilitates the use of PAPSS. The system is designed to use central banks or commercial banks as settlement agents, ensuring the efficient and secure flow of money across borders. This arrangement ensures the smooth operation and effectiveness of PAPSS, providing the necessary regulatory support and infrastructure for its success. The expectation is that the African banking and financial systems will be further strengthened in their infrastructure, compliance and capacity through the adoption of this system.

11 Afreximbank, 'Afreximbank and AfCFTA announce the Operational Roll-out of the Pan-African Payment and Settlement System (PAPSS),' press release, September 28, 2021.

12 Afreximbank, 'Afreximbank and AfCFTA.'

13 AU, 'Africa's financial self-reliance is not self-isolation, but a commitment to base development on own resources: Ministers of Finance,' press release, June 22, 2022.

In this context, it is crucial to recognise the pivotal role that central banks can play in the adoption and implementation of PAPSS. Central banks wield significant influence within their jurisdictions, which positions them as key advocates of the system. The AACB proposed guiding principles to shape the central bank's relationship with Afreximbank, which is essential for fostering stronger collaboration and enhancing advocacy efforts. Addressing the dynamics of this relationship is vital in ensuring the successful implementation and widespread acceptance of PAPSS across the continent.

Partnership with the Association of African Stock Exchanges

In partnership with the Association of African Stock Exchanges (ASEA), PAPSS aims to revolutionise cross-border stock exchange payments in Africa. This strategic partnership was formalised by the signing of a protocol agreement during the ASEA 2023 Building African Financial Markets seminar in Victoria Falls, Zimbabwe.¹⁴ This collaboration demonstrates the commitment of both entities to promote cross-border payments and integrate African capital markets.¹⁵

Regional and national financial institutions' responses

As an acknowledgment of the importance of interoperability, national and regional financing houses have shown a strong interest in collaborating with Afreximbank on PAPSS. Many have formed strategic partnerships with Afreximbank to support the implementation of PAPSS and promote its use among businesses and consumers. This support highlights the system's potential to transform cross-border trade and drive economic integration in Africa.¹⁶

The institutional frameworks and agreements supporting PAPSS provide a solid foundation for its adoption and effectiveness. The collaboration between the AfCFTA, AU, African central banks and financial institutions ensures that PAPSS is well integrated into the continent's financial ecosystem. The positive response from regional and national financing houses, alongside international partnerships, underscores this payment system's potential to transform cross-border trade and drive economic integration in Africa. Continued support and investment in these frameworks will be essential for maximising the benefits of PAPSS and achieving the broader goals of the AfCFTA.

However, while the support is observed from various stakeholders, including major economies such as Nigeria, South Africa and Egypt, the lack of enthusiasm about PAPSS from some regional and national stakeholders is concerning. These countries' central banks and financial institutions are involved in PAPSS development and integration,

14 Brand Spur, 'PAPPSS and ASEA forge strategic partnership to revolutionize cross-border payment of stock exchanges in Africa,' April 26, 2023, <https://brandspurng.com/2023/04/26/papss-and-asea-forge-strategic-partnership-to-revolutionize-cross-border-payment-of-stock-exchanges-in-africa/>.

15 Afreximbank, 'PAPSS and ASEA forge strategic partnership.'

16 Afreximbank, 'PAPSS Expands into North Africa as Banque Centrale de Tunisie Becomes Thirteenth Member,' press release, February 12, 2024.

showcasing their commitment to reducing transaction costs and improving payment efficiency.¹⁷ Despite the widely agreed need to have interoperability at a national, regional and continental level, reasons for the apathy by stakeholders may be summarised in the following questions:

- Who currently controls payments at a continental level?
- Who should be given the responsibility to control payments at a continental level?
- How do we manage the risks of local currency depreciations or devaluations?

In addition to the questions, integrating PAPSS with existing payment systems and financial institutions across various countries can be difficult due to differences in legacy systems, technical protocols and readiness levels. For these reasons, the Tutwa Consulting Group focus group, mentioned earlier, emphasised the importance of collaboration and innovation in cross-border payment systems to achieve interoperability.

The impact of PAPSS on other African trade settlement mechanisms

Continental initiatives are usually introduced in areas already under the regulation of national and regional institutions. This raises questions related to duplication of effort and sharing of responsibility. This is probably among the reasons for non-adoption of PAPSS by some stakeholders.

However, in accordance with AfCFTA principles and procedures,¹⁸ PAPSS works by collaborating with Africa's central banks for the creation of a centralised payment and settlement infrastructure, which will support African commercial banks, payment service providers and financial technology (fintech) actors. It seeks to facilitate connectivity by bringing national and regional payment and settlement systems into a single network, creating an interoperable payment infrastructure across the continent.¹⁹ This also assists in the linking of states, regions and sub-regions that do not have robust payment systems. Regional payment systems in Africa include the following:²⁰

- SADC Real-Time Gross Settlement System;
- West African Economic and Monetary Union (WAEMU);
- East African Payment System;

17 Adrian Njau (Trade and Policy Advisor, East African Business Council) interviewed [by Thabelo Muleya], June 24, 2024.

18 The AfCFTA builds on regional initiatives, including REC agreements, and encourages collaboration throughout.

19 Roger Tafotie, 'The Pan-African Payment and Settlement System (PAPSS) paves the way for a continental payment and settlement infrastructure,' *Medium* (blog), January 31, 2022.

20 Cenfri, *Payment systems in sub-Saharan Africa* (Cape Town: Cenfri, 2018).

- Central African Economic and Monetary Community;
- Regional Payment and Settlement System; and
- SADC Regional Automated Clearing House.

Interoperability among these systems would ensure that businesses and individuals could transfer funds more easily across different regions, supporting the broader AfCFTA objectives of economic integration and development across the continent. It would reduce the reliance on foreign payment systems such as SWIFT, which may involve higher transaction costs and longer processing times.²¹

PAPSS usage: Africa and beyond

PAPSS was piloted in the six countries that make up the West African Monetary Zone (WAMZ) – Nigeria, the Gambia, Sierra Leone, Liberia, Ghana and Guinea – with live transactions completed instantaneously.²² The launch of the system marked an important milestone for the continent and PAPSS by connecting six independent currencies and legal systems. However, this falls short of complete integration within the West African Economic and Monetary Union (WAEMU) where the Franc zone currency is backed by the European Central Bank. As such, though, it initiated advanced discussions with other national and regional institutions to rapidly expand continent-wide connectivity.²³ However, assessing the value it has added to users is a challenge as engagements with stakeholders have shown that there is insufficient data on PAPSS usage.²⁴ To motivate usage, the relevant central banks should consider making the data on the accumulation of PAPSS transactions available.²⁵

Despite the noted loss in momentum, by May 2024, two years after the launch of PAPSS, 13 African central banks had been signed on, with more than 115 commercial banks and 10 payment switches also connected.²⁶ At the same time, another 115 commercial banks were in the ‘pipeline’ for connection.²⁷ This is a testament of the realisation by commercial banks, in the first instance, of Africa’s need for a systemic, harmonised payments system which would provide a solution to the various interoperability challenges.

Given Africa’s substantial trade with external partners, extending the use of PAPSS beyond African borders is crucial for enhancing trade efficiency with these partners. Furthermore, efforts are under way to expand PAPSS to include non-African users. In this regard, PAPSS

21 Adrian Njau, interview.

22 Kingsley Ighobor, ‘New Pan-African payments system provides big relief for African traders,’ *Africa Renewal*, November 2, 2021.

23 PAPSS, ‘Afreximbank and AfCFTA.’

24 Ziad Hamoui (National President, Ghana, Borderless Alliance), interviewed [by Thabelo Muleya], May 30, 2024.

25 Ziad Hamoui, interview.

26 Afreximbank, ‘PAPSS Hosts its Inaugural Bank CEO Consultative Forum,’ press release, May 13, 2024.

27 Moses Michael-Phiri, ‘Africa’s payment platform is fully operational, Papss chief tells bankers,’ *Nation Online*, May 2024.

has established international partnerships. Notably, a memorandum of understanding with the Arab Monetary Fund (AMF) paves the way for cooperation between PAPSS and the AMF's Banu payment system.²⁸ Additionally, all 11 central banks from the Caribbean Community have adopted PAPSS.²⁹

Challenges inhibiting the practical use of PAPSS

Despite the commitments made by entities on the continent and abroad, several factors are limiting the widespread uptake and use of PAPSS. Tutwa Consulting Group's focus group highlighted the interoperability challenge related to the fragmentation of payment systems and issues of trust and cybersecurity. However, while PAPSS addresses some of these challenges, more still needs to be done by policymakers, including the adoption of a harmonised regulatory framework.

Arguably, among the most important factors is awareness of PAPSS. The PAFTRAC Africa CEO Trade Survey Report 2023 showed that PAPSS awareness – and awareness of other AfCFTA initiatives – remains low, as 39% of business leaders are unaware of PAPSS.³⁰ Another significant hurdle is dealing with regulatory frameworks and compliance requirements specific to each country. The financial regulations, data privacy laws and security standards differ widely across Africa, making PAPSS compliance a complex task.³¹

The disparity in technological infrastructure and FMI in African countries further impedes the adoption and use of PAPSS. In regions where digital penetration is low and financial infrastructure is underdeveloped, PAPSS might face limited access and, hence, adoption. Areas with poor internet connectivity and low levels of technological literacy may also struggle to effectively use the system.³²

Managing currency conversions is another challenge. As different currencies prevail across African countries, fluctuations in exchange rates can affect transaction costs and efficiency. PAPSS is also vulnerable to operational and technical risks common to digital payment systems. These can disrupt payment and settlement processes and result in delays or financial losses.³³ There is a risk of over-dependence on this single system. As PAPSS becomes entrenched in payment and settlement activities within the AfCFTA, disruption within PAPSS could have significant repercussions for cross-border trade and financial operations. Integration into existing payment systems and financial institutions across

28 Buna, 'The Arab Monetary Fund (AMF) announces a Memorandum of Understanding with the African Export-Import Bank to support the expansion of economic and financial ties between the Arab region and Africa,' press release, April 21, 2022.

29 PAPSS, 'CARICOM Central Banks adopt PAPSS for intra-regional trade transactions,' press release, October 26, 2023.

30 Pan-African Private Sector Trade and Investment Committee, *PAFTRAC Africa CEO Trade Survey Report 2023*, Assessing the impact of the AfCFTA on African trade.

31 Bright Kweku Azumah, 'Has the AfCFTA surmounted its biggest hurdle by implementing PAPSS?,' *Business and Financial Times Online*, August 9, 2023.

32 Bright Kweku Azumah, 'Has the AfCFTA surmounted its biggest hurdle.'

33 Bright Kweku Azumah, 'Has the AfCFTA surmounted its biggest hurdle.'

African countries presents another challenge, as differences in legacy systems, technical protocols and readiness levels can hinder seamless adoption.³⁴

Special initiatives and remaining gaps

Several operational instruments have been established to facilitate trade, improve market access and ensure the smooth functioning of the AfCFTA. These instruments collectively support the objectives of the AfCFTA to boost intra-African trade, enhance economic integration and drive sustainable economic development across the continent. Key operational instruments are as follows:³⁵

- The AfCFTA e-Tariff Book;
- The AfCFTA Hub;
- The Non-Tariff Barriers Mechanism;
- PAPSS;
- The AfCFTA Adjustment Fund; and
- The Automotive Fund.

Afreximbank's PAPSS initiative, among others, seeks to support trade under the AfCFTA by providing a cross-border payment system to facilitate transactions, boosting intra-African trade. However, gaps in support may include accessibility issues for smaller businesses and varying regulatory frameworks. To address these gaps, enhancing financial inclusion, harmonising regulations and developing tailored solutions may be necessary. New initiatives focusing on these aspects could further enhance trade facilitation under the AfCFTA.

PAPSS further enhances the effectiveness of other trade facilitation initiatives by streamlining payment processes and complementing single window systems that aim to reduce the time and cost of cross-border trade. In addition, the system also offers valuable data on payment flows and trade transactions that can be used for economic analysis and policymaking, thus helping policymakers design better trade policies based on comprehensive financial transaction data. The volume of formal trade within Africa, however, remains relatively low, which limits the immediate impact and benefits that PAPSS can deliver.³⁶

³⁴ Bright Kweku Azumah, 'Has the AfCFTA surmounted its biggest hurdle.'

³⁵ AfCFTA, 'Operational Instruments.'

³⁶ Interview with AfCFTA Secretariat official and payment and settlement systems expert, June 8, 2024.

Conclusion

To unlock the full potential of PAPSS, it is imperative to address the identified challenges and maximise the system's potential impact. The following recommendations are made to address the challenges that impede adoption of the PAPSS:

- To ensure the successful adoption and effectiveness of PAPSS, central banks, Afreximbank and the AfCFTA Secretariat should prioritise fostering transparent collaboration and strong advocacy. This includes addressing institutional dynamics between central banks and Afreximbank to enhance cooperation. Improving data transparency on PAPSS and making transaction data readily available will build trust, demonstrate the system's efficacy and encourage informed decision-making among financial institutions, businesses and government entities. Additionally, targeted awareness campaigns should be implemented to educate key stakeholders on the benefits of PAPSS, further promoting broader adoption across African economies.
- AU member states and RECs should accelerate harmonisation of regulations across African countries. Divergent regulations across countries create barriers for cross-border transactions through PAPSS. By aligning financial regulations, data privacy laws and security protocols, compliance requirements become simpler, facilitating smoother transactions.³⁷
- Member states and the private sector must invest in digital infrastructure development. Inadequate digital infrastructure limits access to PAPSS, particularly in remote areas. Public-private partnerships can accelerate the development of internet connectivity and technological infrastructure, ensuring widespread access to PAPSS and maximising its reach. This must go together with educational programmes that equip individuals with the digital literacy required to use PAPSS.³⁸
- AU member states and RECs must address currency conversion challenges. Slow progress is being made towards monetary convergence within RECs, improving the transparency of exchange rate mechanisms and enabling potential continental digital currencies. These measures to mitigate exchange rate fluctuation risks should enable the utilisation of PAPSS in facilitating intra-African trade and financial integration.³⁹
- With support from Afreximbank, the AfCFTA Secretariat and RECs, member states must implement robust risk management practices and cybersecurity infrastructure. Digital payment systems like PAPSS are susceptible to operational and technical risks. Implementing advanced encryption technologies, regular audits and disaster recovery plans enhances the system's integrity and reliability, ensuring secure transactions and fostering trust among users.⁴⁰

37 MTN Group, 'MTN Group calls for harmonised regulations in Africa to accelerate digital investment,' press release, May 17, 2024.

38 ITU, 'Facts and Figures 2021, the gender digital divide.'

39 Laurent Kemoe et al., 'Exchange rate pressures take a toll on sub-Saharan Africa,' *ISS* (blog), August 2, 2023.

40 Shane McCarthy, 'Africa must act now to address cybersecurity threats. Here's why,' *World Economic Forum*, August 17, 2022.

- Sustained support and investment from various stakeholders are crucial for the long-term success of PAPSS. Institutional frameworks, international partners, regional and continental financing institutions and political will play vital roles in providing resources and guidance, sustaining momentum, and maximising the system's ability to positively impact intra-African trade and economic integration.⁴¹

⁴¹ Kwame Ofori Appiah, 'Mobile money leaders say political will needed to fix cross-border payments,' *African Business*, February 13, 2024.

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