



**Southern African Development Community (SADC)
Payment Clearing and Settlement Subcommittee**

SADC Payment System Integration using the Common Monetary Area as proof of concept – 2011-09-05

The Committee of Central Bank Governors (CCBG) of the Southern African Development Community (SADC), at its meeting held in Pretoria in May 2009, granted approval for the initiation of the SADC Payment System Integration project. The SADC Payment System Project team (the project team), as the CCBG sub-group responsible for payment systems, had requested that it be allowed to initiate a process to develop a conceptual framework for an integrated regional payment environment. The project team would engage other CCBG sub-groups and in their interaction ensure that interfaces between the different functional areas are examined, and that broader requirements for regional integration are considered when developing the payment system conceptual design. Various CCBG sub-groups address different areas of their CCBG responsibility, for example, Legal, Financial Markets, Banking Supervision and Technology Infrastructure.

At the May 2010 meeting, the CCBG also expressed its concern that recent events in the European monetary union could adversely impact on the SADC integration effort. The momentum of the SADC regional integration initiative could be slowed as a result of the European Union experience. The way in which Europe handles the current crisis, whether the situation is allowed to deteriorate or whether it is resolved by the implementation of more rigid control measures, could determine the progress towards the formation of other monetary unions, including the SADC integration initiative. This could mean a slowing of the pace of SADC integration to allow for a more rigorous evaluation of the criteria for convergence, and for the implementation of stricter requirements to conform to, by member countries wishing to join the SADC monetary union. In addition, at a subsequent meeting of the CCBG in September 2010, the SADC secretariat indicated that the SADC Regional Indicative Strategic Development Plan (RISDP) outlining the schedule for SADC integration was being reviewed, and that the scheduled implementation dates could change.

In the light of a possible change of the SADC integration schedule, the project team has had to reflect on its original plans. The current SADC timelines indicate that a SADC

Central Bank is planned to be established by the end of 2016 and a single SADC currency would be introduced by the end of 2018. The initial road map for the implementation of the SADC regional payment system is aligned with the SADC RISDP and sets 2018 as the date to start the roll out of the system, initially to a select group of countries.

Due to changed circumstances relating to possible adjustment of RISDP's target timeline, four SADC countries, namely Lesotho, Namibia, South Africa and Swaziland provide the project team with an ideal environment to develop and test a cross-border settlement model. The currencies of Lesotho, Namibia and Swaziland are pegged to the South African rand and, for purposes of a test, could be regarded as a single currency. The countries collectively make up the Common Monetary Area (CMA) and, besides the parity in currency, have formal trade agreements.

The circumstances in the CMA enable the project team to test and implement a cross-border settlement solution in a controlled environment, and to resolve, on a smaller scale, issues that the team would encounter in the more expansive SADC environment, such as legal and regulatory issues. The major advantages of the approach are that it offers the platform to:

- test the system concepts of regional clearing and settlement;
- create confidence in a regional settlement environment; and
- break down barriers and misconceptions.

A crucial aspect of the proposed SADC cross-border payment system model is that it is based on a single currency. The CMA environment allows for the integrated solution to be tested and implemented in a "single currency" environment, even while issues around convergence in SADC integration are still being resolved. Should the schedule on the RISDP be delayed, and the introduction of the SADC currency be re-scheduled for a later date, using the CMA environment, testing and implementation of the SADC cross-border payment system would not be delayed. The core team that is designing the CMA integrated solution is drawn from all the CMA countries but also includes non-CMA SADC countries to ensure that the solution that would be delivered would incorporate requirements from the broader SADC region. On implementation in CMA, roll-out in non-CMA SADC countries would be undertaken in a co-ordinated and collaborative way.

The CMA model for SADC integration is currently in the design phase.