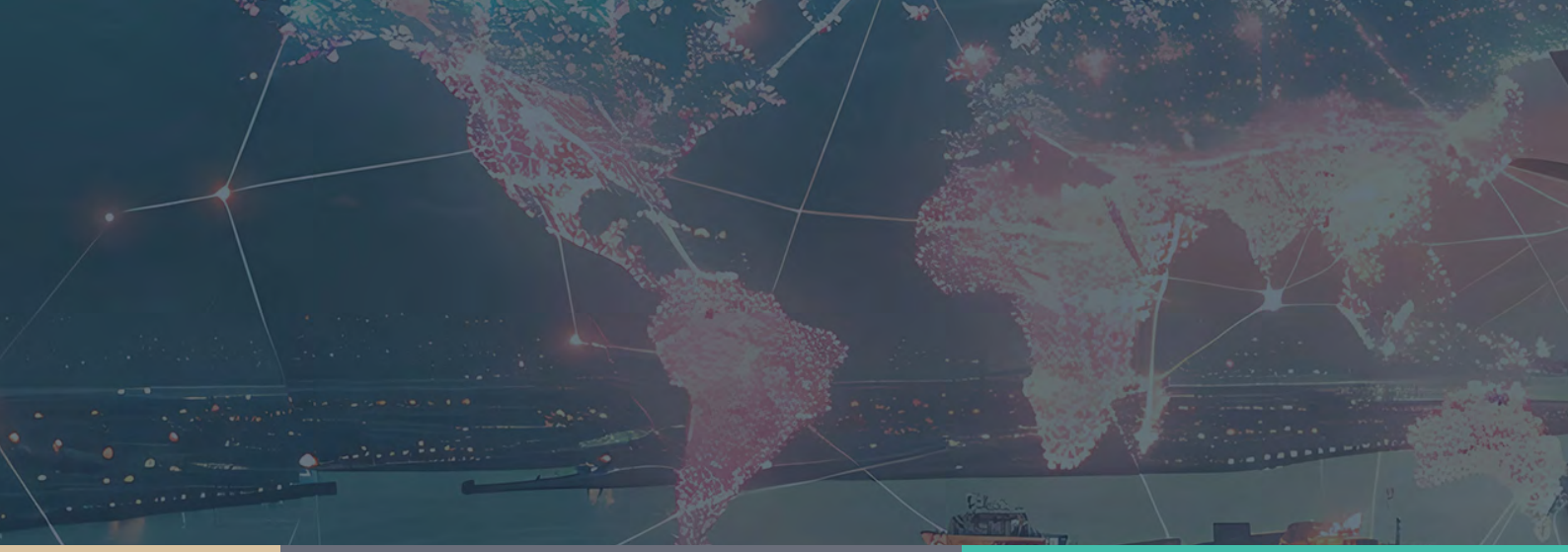
Unlocking the African Continental Free Trade Area growth opportunities for South African banks

This report was prepared for:
The Banking Association South Africa

CENTRE OF EXCELLENCE IN FINANCIAL SERVICES



Foreword

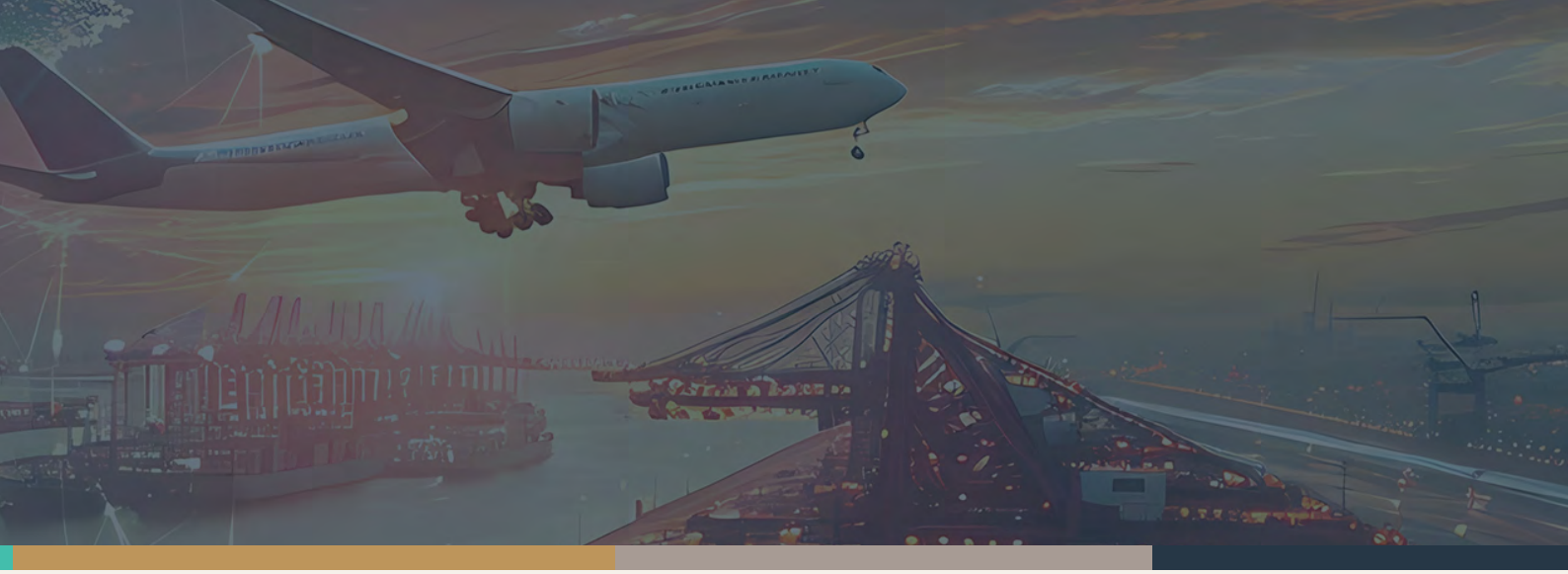
The South African banking industry has been an active participant on the African continent for many years.

With the African Continental Free Trade Area (AfCFTA) becoming a reality, as we unlock Africa's potential for Africans, the recent geopolitical tensions in global trade flows have elevated the need for the AfCFTA to be expedited, and for the conversation to move from political solidarity to economic reality, as the self-imposed hurdles in both tariff and non-tariff barriers to the AfCFTA are addressed and modernized.

As a board member of the Centre of Excellence in Financial Services, and as the managing director of The Banking Association South Africa, the role of the banking industry in facilitating this vision needed to be better understood, as the AfCFTA provides opportunities for the banks to not only invest on the African Continent, but for them to support their customers as they expand their businesses into Africa.

Although not a focus area, the Pan African Payment and Settlement System, the payments solution for Africa, will need to be interoperable, with regional economic communities connecting to support this initiative. Payments are fundamental to the support needed for cross-border business and perfecting the cash conversion cycle.

Bongiwe Kunene
Non-executive Director
Centre of Excellence in Financial Services



Preface

The African Continental Free Trade Area has not received much attention in the local financial markets with mixed reactions to this initial research.

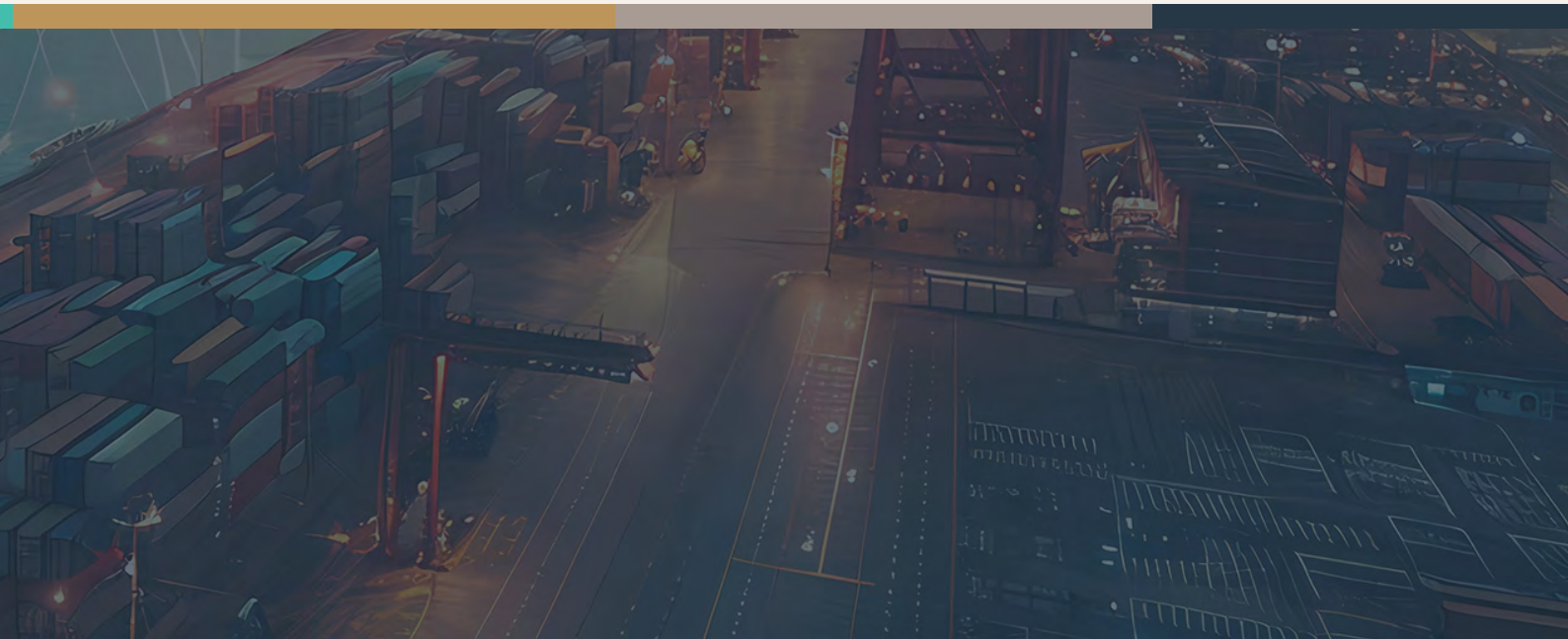
The vision of a prosperous Africa, designed by Africans and executed across 55 countries comes with many ideological challenges, however the rewards for getting it right, catapult the continent with its growing population to potentially the largest efficient single market in the world.

Being ready for this opportunity means a rapid transformation of many impediments, a shift from protective tendencies to a subscription to the Africa we want to live in, and proactive integration of Vision 2063 into the national strategies of countries, coordinated through regional economic communities.

For the South African banking industry, international standards provide comfort for not only the international investor, but provide a common framework for every country, even where the adoption of the framework is slower than the rest.

We wanted to make sure we identified the challenges banks face today, to ensure that these issues are being addressed, in order that they can support the AfCFTA.

Mark Brits
Executive Director
Centre of Excellence in Financial Services



Contents

Abbreviations

ACI	Association Cambiste Internationale
AELP	African Exchanges Linkage Project
AfCFTA	African Continental Free Trade Area
AML	Anti-Money Laundering
AMU	Arab Maghreb Union (Union du Maghreb Arabe)
BCBS	Basel Committee on Banking Supervision
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
CEN-SAD	Community of Sahel–Saharan States
COMESA	Common Market for Eastern and Southern Africa
DFI	Development Finance Institution
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
ESG	Environmental, Social, and Governance
FATF	Financial Action Task Force
FX	Foreign Exchange
IAASB	International Auditing and Assurance Standards Board
ICMA	International Capital Markets Association
IGAD	Intergovernmental Authority on Development
ISDA	International Swaps and Derivatives Association
KYC	Know Your Customer
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires
PAPSS	Pan-African Payment and Settlement System
REC	Regional Economic Community
REPSS	Regional Payment and Settlement System (COMESA)
RTGS	Real Time Gross Settlement
SADC	Southern African Development Community
SIRESS	SADC Integrated Regional Electronic Settlement System
SME	Small and Medium-sized Enterprise
STAR-UEMOA	Système de Transfert Automatisé et de Règlement – UEMOA
WAEMU / UEMOA	West African Economic and Monetary Union / Union Économique et Monétaire Ouest-Africaine

Executive summary

The African Continental Free Trade Area (AfCFTA) is the most ambitious continental-level integration project in Africa's history. This broad co-operative project brings together 55 countries and a potential market of 1.5 billion people with a combined GDP of over US$3.4 trillion.

Africa has the youngest average population at just 19 years. With the United Nations estimating world population peaking in 2084 at around 10.3 billion and ending the century at 10.2 billion, Africa hosts four of the five countries that will contribute an estimated 60% to this world population growth, Nigeria, Democratic Republic of Congo, Ethiopia and Tanzania.

While many other countries are already in population decline, as we approach 2100, Africa should account for 3.3 billion people, while having a median age of 35, remaining the most youthful region. In the short term, by 2050, it should be home to 25% of the world's working age population. Africa not only provides a substantial market, but a sustainable market to the end of the century.

For South African banks, the structural economic shift promised by AfCFTA presents a rich opportunity to expand cross-border financial services, support new trade flows, and shape the continent's financial integration.

This report is designed to equip senior South African banking leaders with the insights required to navigate AfCFTA's complexities while capitalising on its opportunities. The analysis is structured into the following sections:

Introduction

Provides an overview of AfCFTA's vision, comparing its ambition to the EU single market, and sets the stage for why banking will be a central enabler of trade, investment, and economic growth.

The AfCFTA framework and its goals

This section outlines the institutional shape of AfCFTA, including its protocols, annexes, and dispute settlement systems. It also explains some of the key progress markers to date and highlights the bloc's four key pillars: tariff liberalisation, non-tariff barrier reduction, trade in services, and dispute resolution.

Economic potential and trade opportunities for South African banks

Banking leaders can learn about the scale of export and import growth under AfCFTA, with manufacturing trade projected to rise by 62% and intra-African exports by 81% by 2035. Sectoral hotspots include energy-intensive industries, chemicals, food processing, and the digital economy. South African banks are well-positioned to finance these sectors and provide services like trade finance, cross-border payments, and SME credit.

Systemic and operational challenges

This section examines barriers such as uneven Basel compliance, currency volatility, forex shortages, infrastructure gaps, and Regional Economic Community (REC)-specific weaknesses. These disparities call for tailored strategies like dual capital models and targeted partnerships to mitigate risk while scaling operations.

Banking-specific barriers to AfCFTA participation

This portion identifies hurdles, including fragmented settlement systems, thin correspondent banking networks, persistent trade finance gaps, weak legal enforcement, and limited credit information systems. These issues highlight the need for South African banks to leverage digital innovations, improve data-driven credit models, and build partnerships with local players.

Financial integration enablers underway

There are currently ongoing initiatives that support integration, including the Pan-African Payment and Settlement System (PAPSS), the African Exchanges Linkage Project (AELP), and REC-led systems such as the SADC Integrated Regional Electronic Settlement System (SIRESS) and STAR-UEMOA. This section also discusses ongoing regulatory convergence and the strategic role South African banks can play in shaping standards.

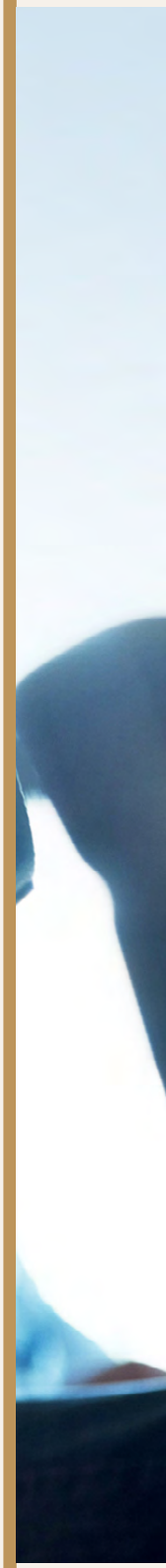
Risk and compliance considerations

This section explores the uneven adoption of AML/KYC frameworks, sovereign and counterparty risk, and the growing importance of cybersecurity in digital cross-border banking. It discusses strategies such as harmonised e-KYC utilities, enhanced sovereign risk modelling, and robust cybersecurity frameworks.

Possible roadmap for South African banks

Here, banking leaders can discover actionable guidance, including recommendations for phased Regional Economic Community (REC) expansion (prioritising the Southern African Development Community (SADC), the East African Community (EAC), and the Economic Community of West African States (ECOWAS), partnerships with fintechs and Development Finance Institution (DFIs), and the development of AfCFTA-ready products such as structured trade finance and interoperable digital payments.

Finally, the concluding sections of the report will restate the dual dynamic in which systemic barriers remain significant, yet competitive opportunities are real and immediate. South African banks, with their regulatory sophistication, capital depth, and leadership in settlement systems, can position themselves not only to benefit but also to contribute to Africa's financial integration under AfCFTA.



Introduction

The African Continental Free Trade Area is one of the most ambitious economic integration projects of recent times. With 55 African countries taking part, it seeks to create a single market comprised of over 1.5 billion people and a combined GDP of around US$3.4 trillion.

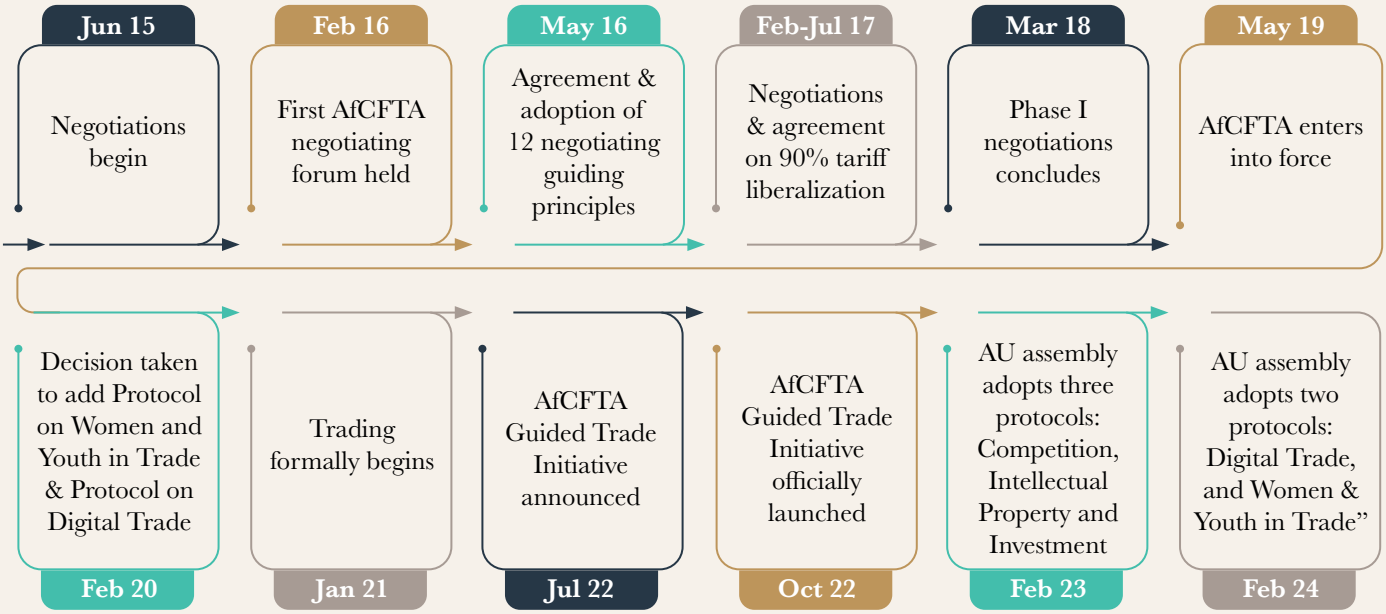
This sheer scale would position AfCFTA as the largest free trade area in the world, doubtless inspired by the European Union's success as a seamless, interoperable trade bloc where goods, services, capital, and labour pass through borders with minimal friction. It would also represent a broader Pan-African vision of looking inward for continental solutions to wealth building and prosperity.

For the African continent, the aspiration is not just freer trade, but a coordinated platform to accelerate industrialisation, leverage home-grown enterprises, and expand intra-African trade, which is currently estimated to lag below 20% of total trade, compared to more than 60% of intra-European trade within the EU.

The African Union recognises the Sahrawi Arab Democratic Republic (Western Saharah) as an independent territory to make 55 countries as opposed to the 54 member states of the United Nations.

Momentum and excitement around AfCFTA have been building steadily since its launch in 2019. As of August 2024, 49 of the 55 signatories had ratified the agreement, with many participating in the Guided Trade Initiative, which is designed to test operational readiness for cross-border trade. These policy commitments come at a time of worldwide upheaval, when global supply chains are reconfiguring, and regional trade blocs are increasingly seen as opportunities to forge anchors of economic resilience.

Timeline & milestones of the AfCFTA



For Africa, the agreement promises a structural shift away from fragmented markets towards a consolidated continental framework that reduces tariffs, harmonises regulations, and strengthens the continent's bargaining power on the global stage.

For banks, as the engine that facilitates economic enterprise, the implications are far-reaching. AfCFTA promises a trade agreement that will be a catalyst for financial integration. South African banks already understand that deeper cross-border trade requires efficient settlement systems, harmonised prudential rules, and expanded access to capital. Therefore, banks that embrace AfCFTA will be more likely to unlock new pathways for regional lending, risk pooling, and product innovation tailored to continental clients, not simply national ones.

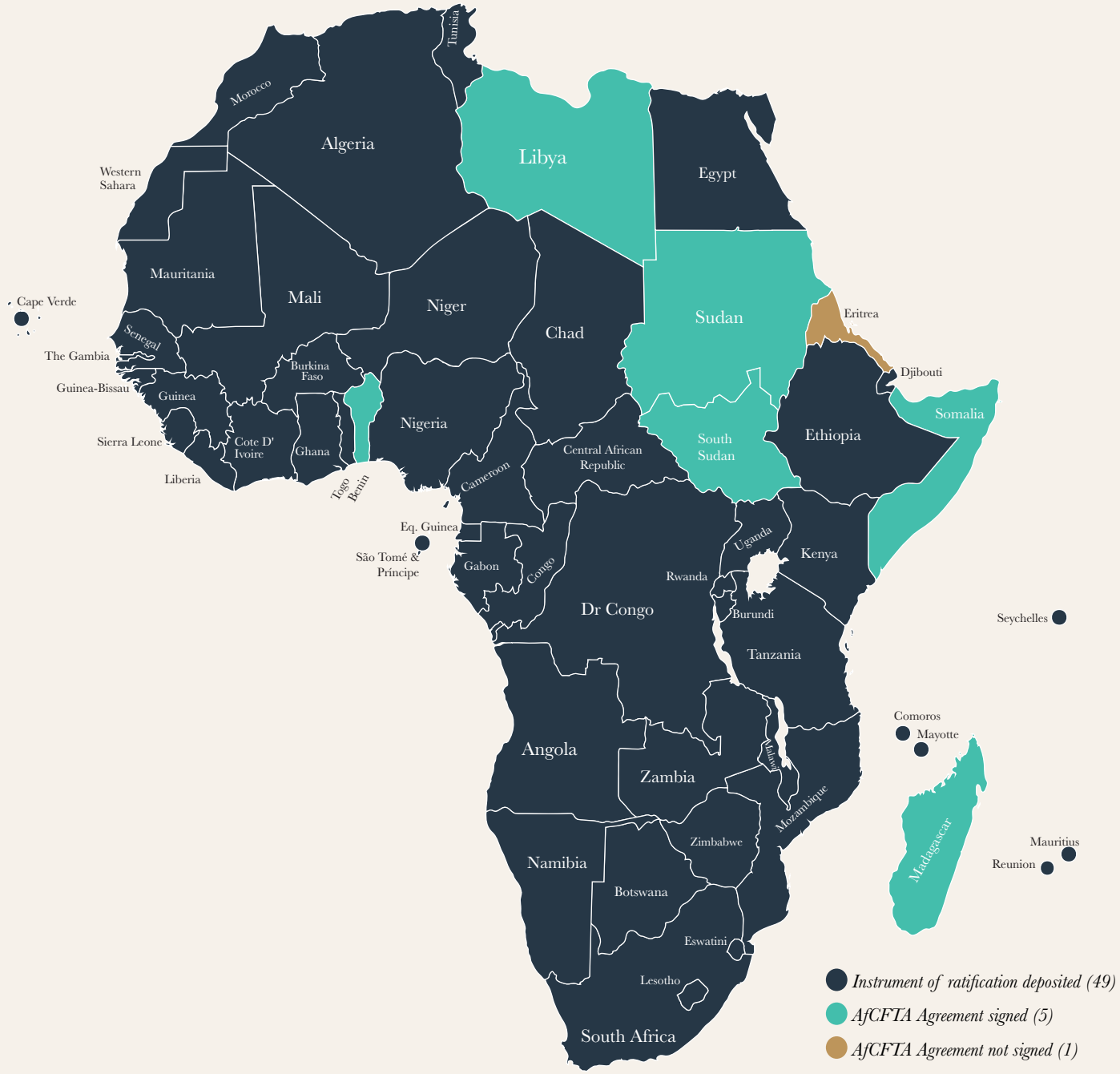
For South Africa the allure of new markets on the African Continent is attractive, but South Africa is one of the biggest markets in Africa, and therefore the inflow of goods and services from Africa to local South African markets must be given serious consideration.

Banks stand to receive increased demand for trade finance, digital payments, and advisory services, as corporates, SMEs, and investors reposition to capture opportunities in new markets. In this regard, the comparison with the EU is instructive. The eurozone's harmonised frameworks and interoperable payment systems show how financial institutions can both enable and benefit from integration.

While Africa's starting point is more fragmented, with wide disparities in regulatory maturity and digital infrastructure, the opportunities are exciting.

For senior leaders in the South African financial services sector, the inevitable reordering of trade flows, regulatory regimes, and customer needs across Africa offers a world of promise, even if there is much work to be done. Banks that anticipate these shifts early, investing in digital infrastructure, building cross-border capabilities, and engaging in regulatory harmonisation, will be best positioned to serve as catalysts of Africa's next growth chapter.

Which countries have ratified the AfCFTA Agreement



Signing the AfCFTA would indicate an endorsement of the principles, while ratification is an agreement to be legally bound by the AfCFTA.

Purpose of the report

The purpose of this document is to examine how South African banks can position themselves strategically within the rapidly evolving framework of AfCFTA. As the continental agreement takes shape, with ratifications across 49 member states and the operationalisation of pilot trade initiatives, the implications for the financial sector are immediate.

Banks will be very important when facilitating trade flows, ensuring regulatory compliance across fragmented markets, and supporting corporates and SMEs to scale into new jurisdictions. This report seeks to provide a structured lens through which banking leaders can assess and evaluate the opportunities as well as the risks of this continental integration.

Aim

The aim is to generate insights on how South African banks can navigate regulatory, operational, and infrastructure barriers while unlocking opportunities linked to AfCFTA's implementation across the RECs. By doing so, the report will highlight the pathways for banks to both support and benefit from the growth of Africa's single market.

Objectives

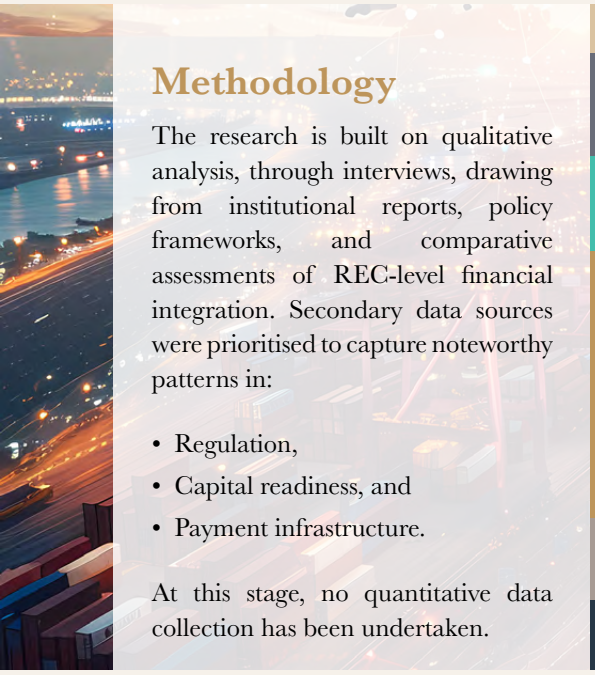
The report's objectives are fourfold:

To analyse the institutional and economic foundations of AfCFTA and its role in reshaping African trade dynamics.

To identify the common regulatory and operational challenges faced by banks across diverse RECs.

To evaluate strategic pathways through which South African banks can expand their footprint and competitiveness across the continent.

To provide evidence-based recommendations that can inform decision-making for both banking executives and policy stakeholders engaged in the AfCFTA process.

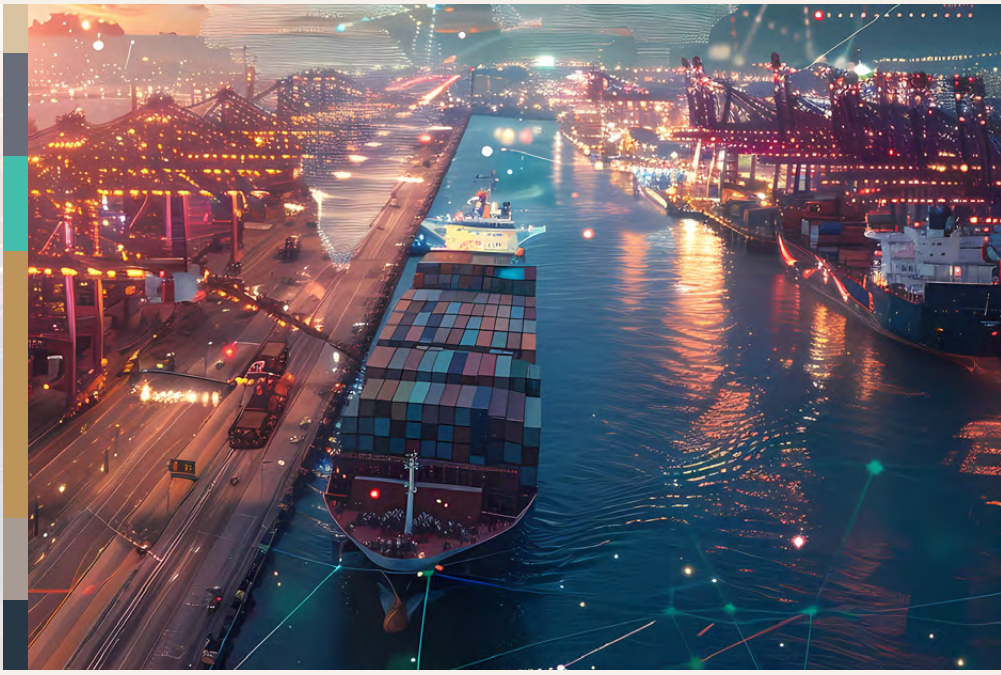


Methodology

The research is built on qualitative analysis, through interviews, drawing from institutional reports, policy frameworks, and comparative assessments of REC-level financial integration. Secondary data sources were prioritised to capture noteworthy patterns in:

- Regulation,
- Capital readiness, and
- Payment infrastructure.

At this stage, no quantitative data collection has been undertaken.



The AfCFTA framework and its goals and scope

The AfCFTA represents Africa's most ambitious economic integration initiative to date. At its core, the bloc is designed to dismantle tariff and non-tariff barriers that have long inhibited intra-African trade, which still accounts for less than 20% of Africa's total trade flows.

The framework targets a phased reduction of tariffs on 90% of goods, complemented by protocols on trade in services, intellectual property, competition, and investment. Alongside tariff liberalisation, AfCFTA emphasises non-tariff barrier elimination, dispute settlement mechanisms, and the eventual free movement of people, all critical to achieving a fully interoperable continental market.

The architecture underpinning AfCFTA is expansive. It consists of a founding Agreement, detailed protocols, and numerous annexes that set the legal and institutional basis for integration. Among the most important are the:

- Protocol on Trade in Goods, which specifies tariff concessions,
- Protocol on Trade in Services, which sets commitments for sectors such as finance, transport, and communications, and
- Dispute Settlement Protocol which establishes an adjudicatory body to resolve conflicts.

AfCFTA legal instruments over two phases

Phase 1	Trade in Goods *Learn more*	Trade in Services *Learn more*	Dispute Settlement Mechanism *Learn more*	Customs and Trade Facilitation *Learn more*	
Phase 2	Intellectual Property Rights	Investment	Competition Policy	Digital Trade	Women & Youth in Trade

Click for language options: *English* | *French* | *Arabaic* | *Spanish* | *Portuguese*

Institutional oversight rests with the AfCFTA Secretariat, headquartered in Accra, Ghana, supported by various committees and working groups tasked with implementation and monitoring.

Progress since launch has been measured but tangible. The Guided Trade Initiative, launched in 2022, has enabled selected countries to test operational readiness by conducting pilot shipments under AfCFTA rules of origin. As of 2024, Ghana, Rwanda, Kenya, and South Africa were among the operationally engaged members, using the initiative to identify legal and logistical bottlenecks in customs clearance, standards recognition, and payment settlement. These efforts have been complemented by commitments from regional economic communities, which remain essential building blocks in aligning policy frameworks and infrastructure at the sub-regional level.

Taken together, AfCFTA's success will depend on four key pillars:

- Tariff liberalisation,
- Reduction of non-tariff barriers,
- Market access in services, and
- The credibility of its dispute resolution system.

These are designed not to be abstract ambitions but practical enablers of trade, capital flows, and financial innovation. For banks, understanding how these pillars are sequenced and implemented is critical, as each one shapes the demand for credit, payments infrastructure, and risk management tools.

Language and cultural challenges across 55 states

One often-overlooked dimension of AfCFTA implementation is the cultural and linguistic complexity of Africa's 55 member states, where more than 2,000 languages are spoken and business culture varies significantly between regions.

These differences influence contract negotiations, customer expectations, dispute resolution styles, and even the adoption of digital financial services. A digital banking product designed for urban South Africa may need significant adaptation before being rolled out in francophone West Africa or in markets with high levels of informality.

Cultural alignment is equally critical. Trust in financial institutions remains uneven, particularly where banking penetration is low. Building credibility often requires partnerships with local banks, hiring culturally fluent teams, and tailoring communication to resonate with diverse client bases.

Banks must invest in localisation, client education, and cross-cultural training for staff. Institutions that embrace this complexity can strengthen customer acquisition and reduce friction in cross-border operations.

Economic potential and trade opportunities for SA banks

For South African banks, there is a significant opportunity to capitalise on new trade corridors, cross-border flows, and investment channels that arise from the AfCFTA initiative.

The AfCFTA agreement came into force on 30 May 2019 after at least 22 countries had ratified it. The World Bank published a report in 2020 that estimated its potential to enhance intra-African trade by projecting the likely impact by 2035. This projection highlights the prospects of successful implementation of the AfCFTA.

Intra-African trade remains structurally low at under 20% of total trade compared with more than 60% in the EU. There is therefore significant scope for improvement, and the direction of travel is clear: tariff reductions, harmonised rules of origin, and regional payment systems are already incentivising corporates and SMEs to extend their supply chains beyond national borders.

Compared to business as usual, the World Bank projected that through the AfCFTA, substantial trading gains can be expected by 2035, as detailed below:

Export expansion by 2035

Overall growth

Africa's total exports are projected to expand by 29%, relative to a no-AfCFTA baseline.

Intra-African growth

Intra-African exports surge by 81%, reaching US$532 billion, up from US$294 billion.

South Africa's role

Alongside Egypt, Morocco, Nigeria, Kenya, and Côte d'Ivoire, South Africa ranks among the top six beneficiaries of export expansion, with estimated gains varying across the countries between US$48 million and US$11 billion.

Sectoral hotspots: The largest gains under the AfCFTA are projected to occur in the following sectors:

- Energy-intensive industries
- Chemicals, rubber, and plastics
- Processed food products
- Other manufactured goods, which include a wide range of unspecified products.

Manufacturing is expected to dominate overall, with a 62% increase in output, including a significant 110% rise in intra-African manufacturing trade. These sectoral gains highlight the transformative potential of the AfCFTA in driving industrialisation and economic diversification across the continent.

Implication for banks: Financing industrial supply chains and structured trade products will be essential as manufacturing displaces raw materials as the continent's primary trade driver.

Import expansion by 2035

Overall growth

Imports are projected to increase by 41%, with intra-African imports more than doubling (+102%) to US$627 billion by 2035.

South Africa's role

Alongside Côte d'Ivoire, the Democratic Republic of Congo, Egypt, Ghana, Kenya, Nigeria, Tanzania, and South Africa will experience one of the largest import expansions, adding between US$10 billion and US$ 32 billion.

Sectoral focus: Imports of chemicals, processed foods, textiles, and other manufactures expand fastest, driven by North and West Africa. Sectoral hotspots provide a useful lens for targeting growth. Agriculture remains a critical opportunity, with 60% of Africa's arable land underutilised and rising demand for agro-processing finance.

Infrastructure and logistics: Driven by projects to modernise ports, roads, and energy systems. Manufacturing and industrial parks are expanding under AfCFTA, particularly in textiles, food processing, and automotive components, while the digital economy continues to accelerate with fintech, e-commerce, and cloud services. Green energy and sustainability-linked investments also represent emerging avenues, aligning with global capital flows and ESG mandates.

Banking opportunities: Increased import flows open opportunities for letters of credit, supply chain finance, and trade insurance, particularly in consumer-driven and industrial supply markets.

Service expansion by 2035

Services trade growth

The AfCFTA is expected to drive significant growth in intra-African trade in services, with an estimated increase of 14%.

The most dynamic segments within this growth include:

- Health and education services are critical for socio-economic development.
- Transport services, encompassing air, road, and rail, are vital for facilitating cross-border trade and connectivity.
- Business and professional services play a key role in supporting entrepreneurship, innovation, and economic transformation.

These sectors are among the five prioritised for immediate liberalisation under the AfCFTA, alongside communication and tourism services, reflecting their importance in Africa's economic integration and development.

Implication for banks: Although modest in volume, these services present a long-term opportunity for payment solutions, infrastructure financing, and regional insurance products.

Regional economic community-specific dynamics

High-growth zones

Cameroon, Egypt, Ghana, Morocco, and Tunisia, are expected to see their exports double or triple under the AfCFTA.

Slower performers

DRC, Mozambique, and Zambia, record smaller export gains (10–30%).

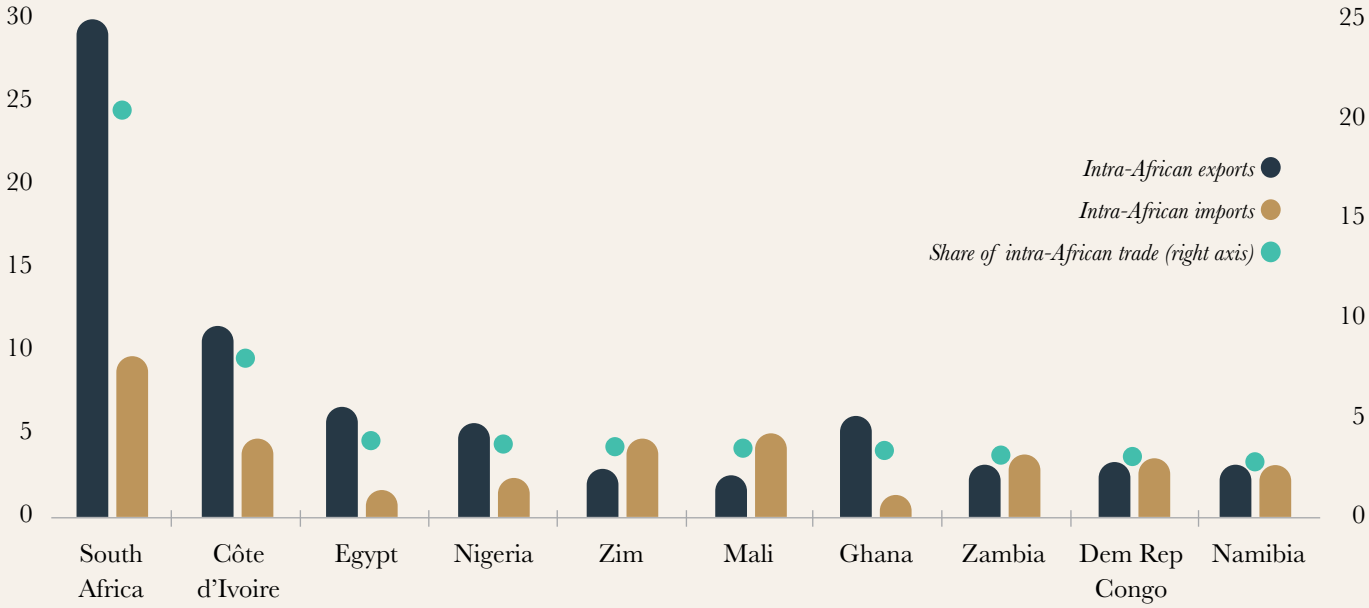
Strategic corridors:

- **North Africa:** Anchored by Egypt and Morocco, driving manufacturing and energy trade.
- **West Africa:** Nigeria and Côte d'Ivoire emerging as trade and consumption hubs despite FX volatility.
- **East Africa:** Kenya's diversified economy and digital leadership provide fertile ground for SME finance.
- **Southern Africa:** South Africa's dominance in manufacturing and financial services positions it as a regional anchor.

As the AfCFTA is implemented, total intra-African trade is increasing each year. Valued at USD 138 billion in 2020, this had risen to USD 192 billion by 2023; however, the growth rate is slowing rapidly, with nearly half of the countries experiencing negative growth in 2023.

Intra-Africa trade is dominated by South Africa at 20% (USD39 billion) followed by Côte d'Ivoire at 8% (USD16 billion).

Top 10 contributors to intra-African trade 2023 (%)

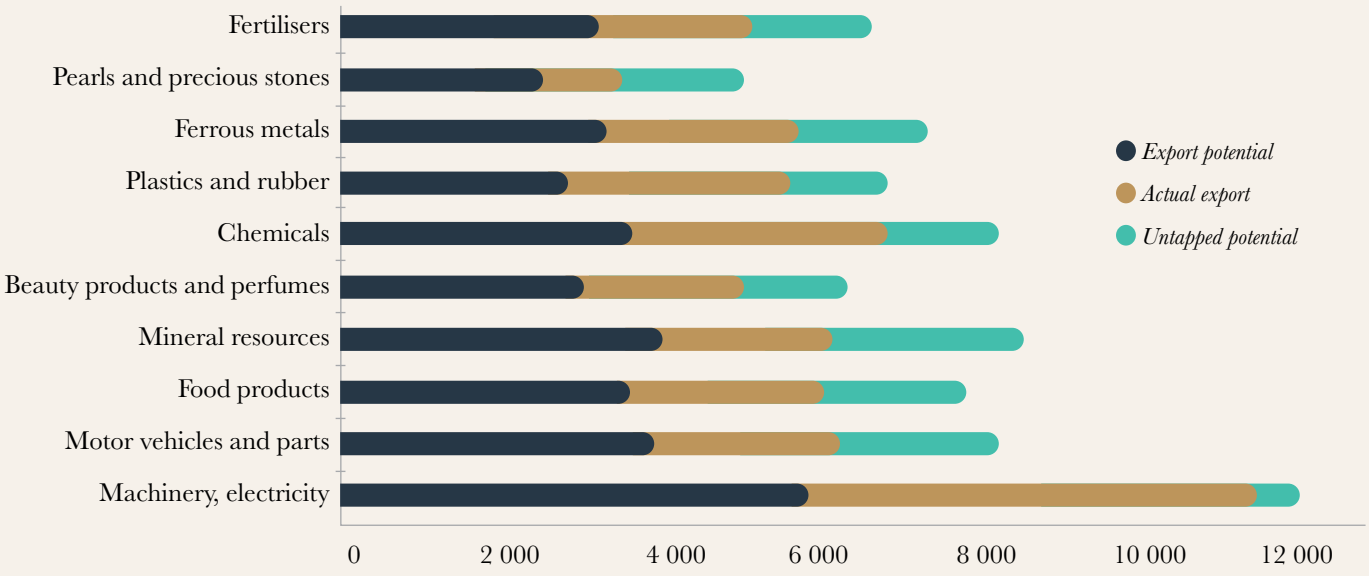


Source: Afreximbank: African Trade Report 2024

South Africa also leads in both exports to Africa at 27% (USD 30 billion) and imports at 12% (USD 10 billion), and for banks, the opportunity is to position themselves to support their clients as they expand trade across the African continent. Banks can anticipate increasing demand for trade finance, working capital facilities, cross-border payments, and treasury services.

With Egypt committing to a target of 20% of all their trade within Africa by 2029, opportunities for South African businesses to import marble, cement, plastics, fertilisers, salt, sulphur, and other Egyptian exports become attractive, while Egyptian imports of copper, coffee, tea, cotton, and live animals could boost exports for South African companies. As this approach is replicated across the continent, more trade opportunities emerge.

Products with greatest intra-African export potential, 2023 (US$ million)



Source: Afreximbank: African Trade Report 2024

Cross-border payments, which are still heavily reliant on non-African correspondent banks, can be rerouted through African systems like PAPSS, thereby reducing costs and increasing margins, allowing payments in local currency.

The African Development Bank has calculated that trade finance is experiencing a funding deficit of USD 80 billion, which if corrected will see higher demand from SMEs and mid-tier corporates. Forex services will become more central as banks manage multi-currency trade settlements, while supply chain financing will rise in importance as regional value chains deepen.

Why this matters for South African banks

For South African banks, AfCFTA presents a unique opportunity to finance the continent's structural shift toward manufacturing-led trade through structured finance, supply chain solutions, and sector-focused lending. South Africa's deep integration within SADC, coupled with its role as a clearing agent for the rand in SIRESS, puts it in a strong position as a natural regional settlement hub, capable of anchoring cross-border financial flows.

At the same time, success will depend on risk-adjusted positioning, adopting strong, expansionary strategies in relatively mature RECs such as SADC and the EAC, while pursuing more cautious, partnership-driven approaches in fragile regions like the Economic Community of Central African States (ECCAS) and the Intergovernmental Authority on Development (IGAD) to balance growth with resilience.

IMPORTS

Total South African imports from the whole world

$101 243 mln

Total South African imports from Africa

$10 695 mln

Five largest import trading partners

1	Nigeria	$2 547 mln
2	Eswatini	$1 495 mln
3	Namibia	$1 218 mln
4	Mozambique	$1 065 mln
5	Angola	$805 mln

Top five import products by value and contribution from largest trading partners

$5 019 mln
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral

1	Nigeria	$2 498 mln
4	Mozambique	$801 mln
5	Angola	$792 mln

$1 319 mln
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad

3	Namibia	$851 mln

$364 mln
Essential oils and resinoids; perfumery, cosmetic or toilet preparations

2	Eswatini	$356 mln

$351 mln
Sugars and sugar confectionery

2	Eswatini	$327 mln

The third largest import product was apparel and clothing at $396 mln. Although Eswatini contributed $147 mln, it was not one of the top five countries in this category.

EXPORTS

Total South African exports to the world

$110 390 mln

Total South African exports to Africa

$31 182 mln

Five largest export trading partners

1	Mozambique	$6 572 mln
2	Botswana	$4 333 mln
3	Namibia	$3 848 mln
4	Zimbabwe	$3 781 mln
5	Zambia	$3 044 mln

Top five export products by value and contribution from largest trading partners

$3 354 mln

Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof

5	Zambia	$569 mln
3	Namibia	$486 mln
2	Botswana	$399 mln
4	Zimbabwe	$398 mln
1	Mozambique	$302 mln

$3 306 mln

Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral

2	Botswana	$799 mln
1	Mozambique	$522 mln
4	Zimbabwe	$349 mln

$2 700 mln

Ores, slag and ash

1	Mozambique	$2 684 mln

$2 360 mln

Vehicles other than railway or tramway rolling stock, and parts and accessories

3	Namibia	$454 mln
5	Zambia	$313 mln
2	Botswana	$310 mln

$351 mln

Iron and steel

1	Mozambique	$1 277 mln

$351 mln

Cereals

4	Zimbabwe @ $537 mln	

Cereals is the 10th most valuable item traded in Africa for exports

Data source: International Trade Centre (www.intracen.org)

Systemic and operational challenges when tackling the opportunity

While AfCFTA's scale and ambition are impressive, the road to full integration is lined with systemic and operational hurdles that banks must navigate carefully.

These challenges are not uniform across the continent, and they vary widely depending on the:

- Maturity of financial systems,
- Regulatory depth, and
- Infrastructure within each REC.

For South African banks, which already operate under Basel III-compliant standards, the contrast with less-developed markets is stark.

Regulatory and policy fragmentation

One of the most apparent risks is the uneven adoption of the Basel framework across Africa. According to the Bank for International Settlements, 90% of the world's banking assets are managed by 28 jurisdictions, with South Africa being the only African country included in that figure. South Africa fully complies with the international standards of Basel, having been rated as "compliant" on all 14 core principles by the Basel Committee since 2013. In contrast, most other African nations are still operating under partial or early Basel II regimes.

According to our research, Kenya has adopted parts of Basel II/III, while Nigeria implements a selective mix of Basel II and III. Other major economies such as Egypt and Mauritius remain on Basel II, whereas countries like Ghana, Ethiopia, and CEMAC nations have not adopted Basel II at all. This fragmented landscape results in significant differences in compliance costs and capital adequacy standards, forcing South African banks to adopt dual approaches to capital modelling. A common strategy is to use Internal Ratings-Based (IRB) models at group level, but to apply simplified standardised approaches for subsidiaries in jurisdictions with lower compliance.

Comparative Table: Basel implementation status by country

Country	REC Membership	Basel Implementation Level	Explanation
Algeria	AMU	Limited Data	Insufficient information
Botswana	SADC	Basel II (In Progress)	Early-stage implementation
Cameroon	ECCAS	No Basel II	Not implemented
Chad	CEN-SAD, ECCAS	No Basel II	Not implemented
Côte d'Ivoire	CEN-SAD, ECOWAS	No Basel II	Not implemented
Djibouti	CEN-SAD, COMESA, IGAD	Limited Data	Insufficient information
Egypt	CEN-SAD, COMESA	Basel II (Implemented)	Moderate compliance
Ethiopia	COMESA, IGAD	No Basel II	Not implemented
Gabon	ECCAS	No Basel II	Not implemented
Ghana	CEN-SAD, ECOWAS	No Basel II	Not implemented
Kenya	CEN-SAD, COMESA, EAC, IGAD	Basel II/III (Partial)	Phased/partial implementation
Lesotho	SADC	No Basel II	Not implemented
Libya	AMU, CEN-SAD, COMESA	Limited Data	Insufficient information
Malawi	COMESA, SADC	No Basel II	Not implemented
Mali	CEN-SAD, ECOWAS	No Basel II	Not implemented
Mauritius	COMESA, SADC	Basel II (Implemented)	Moderate compliance
Morocco	AMU, CEN-SAD	Basel III (Partial)	Basel III partially applied
Mozambique	SADC	No Basel II	Not implemented
Namibia	SADC	Basel II (Partial)	Partial implementation
Nigeria	CEN-SAD, ECOWAS	Basel II/III (Selective)	Partial/fragmented implementation
Rwanda	COMESA, EAC, ECCAS	Basel II (In Progress)	Early-stage implementation
Senegal	CEN-SAD, ECOWAS	No Basel II	Not implemented
Somalia	CEN-SAD, COMESA, EAC, IGAD	No Basel II	Not implemented
South Africa	SADC	Basel III (Fully Compliant)	Full compliance- best practice
Sudan	CEN-SAD, COMESA, IGAD	Limited Data	Insufficient information
Tanzania	EAC, SADC	No Basel II	Not implemented
Tunisia	AMU, CEN-SAD, COMESA	Basel III (Committed)	In transition to Basel III
Uganda	COMESA, EAC, IGAD	No Basel II	Not implemented
Zambia	COMESA, SADC	No Basel II	Not implemented
Zimbabwe	COMESA, SADC	Basel II (In Progress)	In progress

Basel Implementation Level	***Meaning/Interpretation***
Basel III (Fully Compliant)	*High regulatory maturity, low risk, strong compliance*
Basel III (Committed/Partial)	*Transitioning to Basel III, improving but still maturing*
Basel II (Implemented)	*Moderate compliance, better than baseline*
Basel II (Partial/In Progress)	*Early-stage adoption or incomplete implementation*
No Basel II	*Low regulatory compliance, high supervisory risk*
Limited or Unavailable Data	*Lack of transparency or insufficient regulatory information*

Currency volatility and forex constraints

Convertibility remains restricted in multiple markets, particularly in West and Central Africa. For example, Nigeria's chronic foreign exchange crisis, combined with CFA-zone dependencies in ECOWAS and CEMAC, creates both liquidity bottlenecks and costly hedging requirements. Ethiopia's closed capital account and Algeria's rigid controls similarly illustrate the constraints. These regimes often score just 1–2 on regulatory scorecards for FX openness, underlining the scale of operational risk.

Infrastructure and systemic weaknesses

Infrastructure gaps remain significant. SADC has built relative resilience through platforms like the SADC Real Time Gross Settlement (RTGS) and SIRESS, but many other blocs still depend on correspondent banks outside the continent for settlement. ECCAS countries continue to rely on fragile systems dominated by state-owned banks, while the Community of Sahel–Saharan States (CEN-SAD) suffers from weak supervisory frameworks and large informal economies. This limits SME finance and prolongs clearing times, adding costs to cross-border activity.

Infrastructure challenges – digital, energy, and logistics

AfCFTA's ambition to create a seamless single market is directly constrained by Africa's infrastructure deficit. For banks, three areas are especially relevant: digital connectivity, reliable energy supply, and logistics networks.

Digital infrastructure remains uneven. While countries such as Kenya, South Africa, and Nigeria have thriving fintech ecosystems, many others suffer from patchy broadband coverage, high mobile data costs, and low levels of financial inclusion. This hampers the scalability of digital banking and mobile money solutions, both of which are essential for serving SMEs and informal traders that will drive AfCFTA trade flows.

Energy reliability is another critical bottleneck. The African Development Bank estimates that over 600 million Africans still lack access to electricity, with frequent power cuts in countries such as Nigeria and Zimbabwe. Unreliable energy supply undermines both the customer-facing and back-office systems that banks rely on to support digital payments and real-time settlements.

Logistics infrastructure is equally uneven. Weak transport corridors, congested ports, and inadequate border facilities add cost and delay to intra-African trade. This directly impacts demand for trade finance, as goods take longer to move across borders, increasing risk exposure for lenders.

Regional economic community-specific barriers

RECs were established as the building blocks of African economic integration, originally conceived to promote cooperation and reduce trade barriers within defined subregions. They have since become the operational backbone of the African Union's trade agenda.

Their trade-specific importance lies in harmonising rules, piloting cross-border settlement systems such as SIRESS and STAR-UEMOA, and creating trusted platforms where banks and businesses can expand with reduced friction. By aligning national markets under common REC regimes, African states have been able to scale intra-regional trade and test integration models that now inform AfCFTA's continental ambition. We do believe that some challenges and opportunities persist within these blocs, as outlined below:

RECs	Challenges	Opportunities
AMU	Challenges include political instability in Libya, Algeria's restrictive banking laws for foreign banks, and Morocco's highly competitive market.	Investment banking, SME financing, and Islamic banking are key areas of economic development.
CEN-SAD	This region is plagued by large informal economies, weak regulatory frameworks, and ongoing security threats in the Sahel region.	Opportunities lie in infrastructure financing and trade facilitation.

RECs	Challenges	Opportunities
COMESA	Political risks in DRC and Sudan constrain regional stability, while Egypt's regulatory dominance creates concentration risk.	There are opportunities in corporate banking, trade finance, and investing in fintech.
EAC	Kenya's fintech dominance makes entry challenging for foreign banks, while Tanzania and Rwanda present complex regulatory hurdles despite digital growth.	Openings lie in forming fintech partnerships, expanding SME banking, and providing trade finance.
ECCAS & IGAD	Weak penetration, political fragility, and restrictive FX regimes leave banks exposed to heightened credit and counterparty risk.	In ECCAS, project finance, microfinance, and financial inclusion are areas of opportunity, while in IGAD, digital banking, trade finance, and logistics financing offer potential.
ECOWAS	Nigeria's forex crisis and high corporate taxation persist, while francophone states remain tied to the CFA system and French oversight.	Retail expansion, corporate lending, and francophone trade finance present significant scope for growth.
SADC	Despite integration progress, FX controls in Angola and Zimbabwe, coupled with reliance on extractive industries, reduce banking stability.	Opportunities exist in retail banking, especially in digital and savings products, as well as in investment banking focused on infrastructure.

RECs offer a critical ecosystem for integration and with 44 of the 55 countries members of more than one REC, the opportunity for harmonization is substantial.

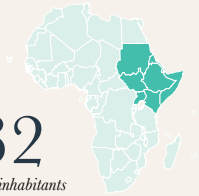
Africa's eight RECs

The AU recognises eight regional economic communities, each with different roles and structures.

353
Million inhabitants

East African Community (EAC)

- Burundi
- Democratic Republic of Congo
- Kenya
- Rwanda
- Somalia
- South Sudan
- Tanzania
- Uganda



332
Million inhabitants

Intergovernmental Authority of Development (IGAD)

- Djibouti
- Eritrea
- Ethiopia
- Kenya
- Somalia
- South Sudan
- Sudan
- Uganda

461
Million inhabitants

Economic Community of West African States (ECOWAS)

- Benin
- Burkina Faso
- Cape Verde
- Côte d'Ivoire
- Gambia
- Ghana
- Guinea- Conakry
- Guinea-Bissau
- Liberia
- Mali
- Niger
- Nigeria
- Senegal
- Sierra Leone
- Togo

110
Million inhabitants

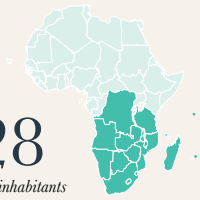
Arab Maghreb Union (AMU)

- Algeria
- Libya
- Mauritania
- Morocco
- Tunisia

697
Million inhabitants

Common Market for Eastern and Southern Africa (COMESA)

- Burundi
- Comoros
- Congo-Kinshasa
- Djibouti
- Egypt
- Eritrea
- Eswatini
- Ethiopia
- Kenya
- Libya
- Madagascar
- Malawi
- Mauritius
- Rwanda
- Seychelles
- Somalia
- Sudan
- Tunisia
- Uganda
- Zambia
- Zimbabwe



428
Million inhabitants

Southern African Development Community (SADC)

- Angola
- Botswana
- Comoros
- Congo-Kinshasa
- Eswatini
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- Seychelles
- South Africa
- Tanzania
- Zambia
- Zimbabwe

248
Million inhabitants

Economic Community of Central African States (ECCAS)

- Angola
- Burundi
- Cameroon
- Central African Republic
- Chad
- Congo Republic
- Democratic Republic of Congo
- Equatorial Guinea
- Gabon
- Rwanda
- São Tomé & Príncipe

804
Million inhabitants

Community of Sahel-Saharan States (CEN-SAD)

- Burkina Faso
- Eritrea
- Libya
- Comoros
- Gambia
- Egypt
- Ivory Coast
- Djibouti
- Guinea
- Guinea Bissau
- Sierra Leone
- Benin
- Central African Republic
- Ghana
- Mali
- Niger
- Senegal
- Sudan
- Chad
- Somalia
- Nigeria
- Mauritania
- Togo
- Tunisia
- Morocco

Populations are estimates for 2025 using worldometers. Source: https://www.worldometers.info/population/countries-in-africa-by-population/

Strategic recommendations for banks

For South African banks, these challenges require adaptive strategies. Basel fragmentation makes it necessary to maintain dual capital models, utilising IRB sophistication where appropriate, and where regulators permit, employing conservative standardised approaches elsewhere. However, if the capital adequacy for the perceived risk in the host country is deemed insufficient, the South African Reserve Bank can introduce a Pillar 2B add-on in the home jurisdiction, affecting the viability of activities in the host country.

Selective partnerships with local banks and fintechs can provide contextual agility, particularly in markets like Kenya, Ghana, and Egypt, where regulatory systems are advancing but incomplete. In higher-risk regions such as ECCAS and IGAD, banks may need to rely on development finance institutions or blended finance mechanisms to mitigate risk exposure. Finally, engaging proactively in regulatory dialogue within RECs is a way to shape convergence on prudential norms and gradually lower compliance complexity.

Banking-specific barriers to AfCFTA participation

While AfCFTA provides a framework for trade liberalisation, the operational realities of banking across multiple jurisdictions present obstacles that will take years to resolve. These barriers directly affect banks' ability to scale services, manage risk, and extend financing in support of continental trade.

Settlement and clearing inefficiencies

Many African markets continue to rely on fragmented, country-level settlement systems. Without harmonised regional or continental infrastructure, cross-border transactions remain slow, costly, and often routed through non-African correspondent banks.

This reliance increases costs and exposes banks to foreign exchange and liquidity risks.

Heavy reliance on the US dollar for intra-African settlement adds inefficiency. For South African banks, this creates uncertainty around which systems to invest in and how to ensure interoperability. Without clarity, banks risk duplicating investments or being excluded from emerging corridors that do not align with South Africa's existing infrastructure.

Limited correspondent banking networks

Despite AfCFTA's intent to boost intra-African trade, the underlying correspondent banking relationships remain thin. Many smaller and fragile markets depend on a handful of international banks for clearing services, creating concentration risk and bottlenecks. This limits the ability of South African banks to intermediate directly in local markets without incurring high settlement costs.

Trade finance gaps

The African Development Bank estimates the continent faces a trade finance gap exceeding US$80 billion annually, with SMEs disproportionately affected. Banks are often reluctant to extend financing due to insufficient collateral, incomplete credit information, and perceived sovereign risk. This gap directly undermines one of AfCFTA's core goals, expanding SME participation in regional trade.

Weak legal enforcement

Legal systems across several jurisdictions remain underdeveloped or inconsistent in enforcing contracts, particularly cross-border agreements. This increases counterparty risk and raises the cost of lending and investment. For banks, weak judicial capacity means that even well-structured trade finance products may be exposed to collection and recovery challenges.

Legal pluralism in African banking markets

One of the less visible but highly material challenges facing banks under AfCFTA is legal pluralism. Unlike the EU, which largely harmonises commercial law, Africa's 55 states operate under a patchwork of legal systems: common law, civil law, Islamic law, and hybrid frameworks. These often coexist within the same trade corridor, creating complexity for banks structuring cross-border transactions.

Common law jurisdictions, such as South Africa, Nigeria, and Kenya, emphasise precedent and judicial interpretation, while civil law countries, like Morocco, Senegal, and Côte d'Ivoire, rely heavily on codified statutes. In North and West Africa, Sharia law influences banking contracts, particularly in Islamic finance.

For banks, this diversity affects everything from contract enforceability to collateral recognition and insolvency procedures.

Weak judicial capacity in some states compounds the problem, increasing enforcement costs and prolonging dispute resolution. This creates risk not only for banks but also for corporates seeking financing under AfCFTA protocols.

To operate effectively, banks will need strong local legal partnerships, cross-border arbitration mechanisms, and flexible product structures that account for divergent legal contexts. Harmonisation is advancing slowly through AfCFTA dispute resolution protocols, but for now, banks must assume that legal pluralism will remain a defining feature of African markets.

During our research, we developed a multi-regulatory maturity scorecard, based on available information, to capture the extent to which different countries have progressed in terms of regulatory maturity. This demonstrates not only constraints for banks looking to expand into these regions, but also a major obstacle for intra-African trade.

Country	REC(s)	Basel Status	AML/CTF	FX Control	Digital Banking	Licensing & Supervision	Deposit Insurance	Credit Data	ESG/Green Finance
Algeria	AMU	2	2	2	2	2	2	2	1
Botswana	SADC	3	3	4	4	4	4	3	3
Cameroon	ECCAS	1	2	2	2	2	2	2	1
Djibouti	CEN-SAD, COMESA, IGAD	2	2	2	3	3	2	2	1
Egypt	CEN-SAD, COMESA	4	3	2	4	4	4	3	3
Ethiopia	COMESA, IGAD	2	2	1	2	2	2	2	1
Ghana	CEN-SAD, ECOWAS	2	3	3	4	3	3	3	2
Kenya	CEN-SAD, COMESA, EAC, IGAD	4	3	4	5	4	4	4	4
Lesotho	SADC	1	2	2	2	2	2	2	1
Morocco	AMU, CEN-SAD	4	4	3	4	4	4	4	4
Mozambique	SADC	2	2	2	3	3	2	2	1
Namibia	SADC	3	3	4	4	4	4	4	3
Nigeria	CEN-SAD, ECOWAS	3	2	3	4	3	2	3	3
Rwanda	COMESA, EAC, ECCAS	3	3	4	5	4	4	4	3
Senegal	CEN-SAD, ECOWAS	2	3	3	4	3	3	3	2
South Africa	SADC	5	4	5	5	5	5	5	5

Country	REC(s)	Basel Status	AML/CTF	FX Control	Digital Banking	Licensing & Supervision	Deposit Insurance	Credit Data	ESG/Green Finance
Tunisia	AMU, CEN-SAD, COMESA	4	3	3	4	4	4	3	4
Uganda	COMESA, EAC, IGAD	2	3	3	4	3	3	3	2
Zambia	COMESA, SADC	2	3	3	3	3	3	3	2
Zimbabwe	COMESA, SADC	2	2	1	2	2	2	2	1

Regulatory maturity score definitions

Score	Label	Description
5	Advanced	Full implementation of international standards. Strong, transparent regulation and supervision.
4	Strong	Well-established frameworks with minor gaps. Effective oversight in place.
3	Moderate	Regulatory systems in place but incomplete or inconsistently applied.
2	Weak	Early-stage or partial frameworks. Limited capacity or fragmented oversight.
1	None	No formal framework or implementation; regulatory vacuum or very high risk.

Collectively, these barriers illustrate why banking integration cannot be assumed as an automatic outcome of AfCFTA. For South African banks, addressing these structural issues, through digital innovations, partnerships with local institutions, and targeted investments in credit infrastructure, will be critical to unlocking the full potential of the continental market.

By implementing these standards, enforcement of the legal frameworks in each jurisdiction becomes more consistent.

Credit information gaps

A robust credit infrastructure is essential for scaling retail and SME lending across borders; however, most African credit bureaus remain fragmented, underdeveloped, or entirely absent. Where they exist, they often exclude SMEs and informal sector participants, who are among the most active in cross-border trade. The absence of reliable credit histories forces banks to rely on conservative underwriting, restricting access to finance and slowing integration. Without robust cross-border credit information systems, SMEs face higher financing costs, limited access to trade credit, and longer approval times for cross-border transactions.

ESG misalignment

South African banks have considered the AfCFTA opportunity before and have voiced collective concern that there remains an absence of a harmonised green taxonomy across jurisdictions that creates inconsistency in how sustainable finance is defined and measured. Fragmented environmental, social and governance standards mean that banks operating regionally face competing frameworks, making it harder to scale green products or attract cross-border investment.

The compliance burden is also uneven: larger institutions may absorb the cost of reporting and verification, but smaller and mid-tier banks often struggle with resource-intensive requirements that were never scaled for their realities. Meanwhile, regulators and investors are increasingly demanding evidence of ESG integration, yet the underlying data, especially reliable climate and social impact metrics, remains scarce in many African markets. This misalignment risks discouraging innovation in sustainable finance at precisely the moment when the continent needs coherent ESG standards to mobilise capital for its development goals

Private sector exclusion from AfCFTA policy

This is another persistent barrier, as expressed by banks. Despite the centrality of financial institutions in enabling cross-border trade and investment, banks consistently report being sidelined in AfCFTA policy discussions. This lack of inclusion means that the technical realities of payments, compliance, and financial intermediation are often under-represented when protocols are designed.

Without structured input, rules risk being misaligned with market practice, creating bottlenecks instead of removing them. A clear remedy would be to establish formal engagement platforms, such as a Financial Services Working Group, through which banks and other private actors can provide feedback, share expertise, and help shape an agreement that is both ambitious and operationally workable.

Financial integration enablers underway

Despite the fragmentation, several integration initiatives are beginning to lay the foundations for a more interoperable African financial system. These enablers, while at varying stages of maturity, are critical to AfCFTA's success and directly relevant to banks seeking to expand cross-border operations.

Pan-African Payment and Settlement System (PAPSS)

PAPSS, spearheaded by Afreximbank, is designed to enable real-time settlement of intra-African trade in local currencies. By bypassing extra-continental correspondent banking networks, PAPSS reduces settlement delays and improves liquidity management for banks. The system is already live in the West African Monetary Zone, with rollout underway across other RECs. For South African banks, PAPSS provides the opportunity to position themselves as clearing agents for rand-denominated transactions, anchoring the rand more firmly as a regional trade currency.

African Exchanges Linkage Project (AELP)

The AELP links major African stock exchanges, including Johannesburg, Nairobi, Casablanca, and Lagos, creating a single window for cross-border securities trading. For banks, this expands opportunities in custody, brokerage, and structured products, while enabling corporates to raise capital across multiple jurisdictions. Over time, the AELP is expected to integrate with broader AfCFTA initiatives, creating a more liquid and pan-African capital market.

Role of regional economic communities

RECs remain the operational building blocks for continental integration. SADC has developed the SADC Integrated Regional Electronic Settlement System, a real-time gross settlement platform that processes high-value transactions in rand across 15 countries. The West African Economic and Monetary Union (WAEMU's) STAR-UEMOA performs a similar function for francophone West Africa, harmonising clearing and settlement under the BCEAO.

COMESA operates the Regional Payment and Settlement System (REPSS), facilitating cross-border trade payments in local currencies across its members. For banks, these REC-level systems provide immediate channels for cross-border liquidity while continental systems like PAPSS scale up. South African banks in particular benefit from SIRESS, where the rand already plays a central role.

Regulatory convergence initiatives

Momentum is also building toward harmonised prudential and supervisory standards. The African Union, the Association of African Central Banks, and regional regulators like the SADC Committee of Central Bank Governors are advancing frameworks on capital adequacy, KYC/AML protocols, and digital finance regulation. Basel alignment is still fragmented. Yet these dialogues create entry points for South African banks to export regulatory know-how and engage in capacity building. Their credibility in risk modelling, compliance, and digital finance regulation can help shape convergence, while simultaneously lowering operational friction for their own expansion.

The role of South African banks

For South African institutions, early engagement is not only about accessing new revenue streams but also about influencing the standards and systems that will govern Africa's financial future. By leveraging their sophistication, they can act as policy partners in REC initiatives, clearing agents in platforms such as SIRESS and PAPSS, and innovation leaders in areas like digital KYC and trade finance. Selective partnerships with local banks and fintechs across RECs will provide both market access and regulatory agility.

Taken together, these enablers point towards gradual but tangible progress in building the financial plumbing of a single African market. The pace is uneven, but South African banks that invest in shaping, not just participating in integration, stand to gain the most from AfCFTA's financial transformation.

Risk and compliance considerations for banks

As AfCFTA opens new markets and trade flows, risk and compliance emerge as central challenges for banks. Unlike traditional domestic banking models, cross-border integration multiplies the layers of regulatory, operational, and reputational exposure. South African banks, already accustomed to Basel III standards and sophisticated compliance regimes, must adapt to operating in jurisdictions where supervisory frameworks are partial, inconsistent, or absent.

Adapting KYC/AML frameworks

KYC and AML frameworks vary widely across RECs. SADC countries such as South Africa and Namibia maintain relatively advanced, Financial Action Task Force (FATF)-aligned systems, while WAEMU states rely on BCEAO-driven AML policies, which are unevenly enforced. EAC members, led by Kenya, are moving toward harmonised e-KYC initiatives, but uptake remains slow outside the core markets. In ECCAS and IGAD, AML regimes are fragmented and often under-resourced, leaving significant exposure to financial crime risk.

For banks, this inconsistency complicates onboarding, cross-border correspondent relationships, and due diligence. The way forward is a layered compliance model, where group-level standards are applied across subsidiaries, augmented by shared regional utilities such as digital ID systems or e-KYC platforms, which are emerging in the EAC and being piloted in the SADC. Such frameworks lower duplication, improve transparency, and reduce onboarding friction.

Counterparty and sovereign risk

Operating across multiple RECs exposes banks to high counterparty and sovereign risk. Nigeria's persistent FX shortages, Sudan's political instability, and Angola's oil-dependent fiscal position highlight how sovereign fragility translates into credit exposure. Weak legal enforcement in Central Africa and parts of the Sahel further amplifies counterparty risk.

To address this, banks are increasingly turning to enhanced credit risk modelling, embedding country-specific sovereign indicators and stress tests into loan pricing. Instruments such as political risk insurance (backed by DFIs like Afreximbank or MIGA) and currency hedging strategies are becoming essential for mitigating macroeconomic shocks. For South African banks, dual-track credit models that combine standardised group tools with localised overlays can provide better granularity on counterparties operating in higher-risk jurisdictions.

Data sovereignty and cybersecurity in digital transactions

The growth of PAPSS, mobile money, and fintech-driven cross-border platforms raises cybersecurity as a first-order concern. REC-level digital regulations are highly uneven: Kenya and Nigeria have comprehensive data protection laws, while several CEMAC and IGAD states lack enforceable cyber legislation. This leaves payment systems exposed to fraud, breaches, and identity theft.

Banks will need to build harmonised cybersecurity frameworks that exceed local requirements, including real-time monitoring, encryption, and AI-driven anomaly detection for suspicious transactions.

The uneven development of data protection regimes and digital infrastructure across Africa complicates the creation of shared, cross-border systems. While some markets are experimenting with e-KYC platforms, digital IDs, and credit bureau integrations, others impose strict data sovereignty rules that limit cross-border flows. For South African banks, this creates both compliance and operational risk: without harmonised standards, onboarding clients, verifying identities, and sharing credit information become costly and inefficient.

Climate finance and ESG frameworks

The lack of harmonised ESG taxonomies and sustainability reporting standards across Africa increases regulatory uncertainty. While South African banks are already adapting to global ESG reporting requirements, their peers in many other African markets operate under looser or inconsistent frameworks. This fragmentation not only raises the cost of offering sustainable finance products but also creates reputational risk if disclosure and measurement vary widely between jurisdictions. Until common frameworks are established, ESG-linked finance will remain patchy and uneven.

Tax compliance and transfer pricing

Cross-border financial operations continue to face challenges around double taxation and inconsistent transfer pricing regimes. Francophone West Africa benefits from some harmonisation under OHADA and BCEAO, while anglophone regions remain fragmented. For banks, aligning early with OECD BEPS standards and AU-led tax harmonisation efforts reduces exposure to disputes and penalties.

Taken together, these risks highlight that AfCFTA requires more than defensive compliance. Banks that treat compliance as an enabler – by investing in e-KYC utilities, enhancing credit analytics, embedding sovereign risk hedges, and standardising cybersecurity frameworks, will not only lower exposure but also strengthen their competitive positioning across RECs. For South African banks in particular, exporting regulatory sophistication and shaping regional standards represents both a hedge against uncertainty and a growth strategy in itself.

Possible roadmap for South African banks

AfCFTA is both a trade initiative and also a long-term restructuring of Africa's economic landscape. For South African banks, the opportunity lies in converting regulatory complexity and infrastructure gaps into competitive advantage through strategic proactiveness and operational agility. A clear roadmap is required to translate AfCFTA's policy framework into actionable growth strategies.

Opportunities under AfCFTA

Opportunities under AfCFTA are wide-ranging and directly relevant to the banking sector. PAPSS, once widely adopted, has the potential to dramatically reduce cross-border settlement costs and FX risk by enabling direct, local-currency payments, while new digital rails built through fintech platforms, mobile wallets, and regional switches can bypass costly legacy systems.

At the same time, unified regulatory frameworks across RECs, particularly in areas such as AML, e-KYC, and data privacy, will be essential to creating interoperable payment corridors. Finally, collaboration between central banks on liquidity and FX mechanisms will play a critical role in building confidence and deepening trust in the continent's emerging cross-border settlement platforms.

Strategic implications for South African banks

The strategic implications for South African banks under AfCFTA are significant. They can position themselves as regional clearing agents or PAPSS settlement banks, particularly in ZAR corridors, reinforcing the rand's role in continental trade. Investment in payment infrastructure interoperability, such as ISO 20022 compliance and API integrations, will be a key differentiator, allowing banks to connect seamlessly across markets.

Additionally, strategic partnerships with fintechs, mobile money operators, and regional switches will be vital to unlocking scale and extending reach into underserved areas. Active participation in policy dialogue and regulatory sandboxing efforts will also allow South African banks to have an influence on the pace of harmonisation and drive innovation in cross-border financial services.

Recommendations for South African banks

These are our key recommendations for South African banks:

1. Shape the regulatory engagement

South African banks should engage proactively with REC-level regulators to promote the adoption of common standards, including AML/KYC, and digital KYC frameworks that are appropriate for full adoption in Africa. If the RECs are not aligned to the AfCFTA, then no improvement in regulation can be expected. Each REC could be monitored through annual reporting requirements regarding the level of adoption, and perhaps the Minister of Trade, in consultation with his Ministry of Finance counterparts, could provide feedback to the AfCFTA meetings. These financial discussions could also be facilitated through the Association of African Central Banks.

For the banking system across Africa, full compliance with the Basel Committee on Banking Supervision (BCBS) document Core Principles for Effective Banking Supervision will provide the necessary flexibility for South African banks operating at the higher Basel III.1 standard to engage their South African or home supervisor for a lower standard in the host jurisdiction.

> Several international standards can strengthen the financial sector without the need to develop a new framework.

These include the Basel Committee on Banking Supervision, which provides an international standard for banks known as Basel; the International Swaps and Derivatives Association (ISDA), which offers a master agreement for derivative products; the International Capital Markets Association (ICMA), providing rules and principles for the international capital and securities markets; the Association Cambiste Internationale (ACI) and the FX Global Code, which set out principles of good practice in the foreign exchange market; and the International Auditing and Assurance Standards Board (IAASB), which establishes standards for auditing and assurance. Adhering to these international standards enables a jurisdiction to develop at its own speed while still reaching the same goal of regulatory harmonisation and minimising regulatory arbitrage.

In mature markets, banks can export their expertise in compliance and supervisory systems, positioning themselves as partners in capacity building. In emerging blocs such as ECOWAS and COMESA, active participation in technical forums and regulatory sandboxes can influence the harmonisation of prudential standards while reducing long-term compliance costs for institutions with regional footprints.

2. Proactively shape payment solutions - the battleground of integration

Cross-border payments remain one of AfCFTA's most visible challenges, with fragmentation, dollar-dependence, and competing initiatives such as PAPSS, Central Bank Digital Currencies (CBDCs), and regional rails creating uncertainty. Yet this complexity also represents a strategic opportunity for South African banks. With their established role in SADC's SIRESS system and deep experience in managing rand liquidity, they are well-positioned to act as trusted intermediaries in building interoperable corridors. By investing early in payment infrastructure interoperability, through ISO 20022 compliance, API integrations, and digital wallet linkages, South African banks can set the benchmark for efficiency and reliability in AfCFTA's payments architecture.

The payments ecosystem is poised to test the commitment of countries to AfCFTA, particularly where investments in REC and in-country payment systems are substantial. A key success factor will likely be how to connect systems for interoperability, rather than designing a standard architecture. To facilitate the movement of goods, the cash conversion cycle must shift to instant or near real-time to promote cross-border trade.

3. Build cross-border partnerships

Banks may not be able to operate in isolation. Understanding local culture and business etiquette are critical. Partnerships with local banks, fintechs, and development finance institutions will be crucial for scaling across markets with underdeveloped financial systems. In higher-risk regions, such as those in ECCAS and IGAD, DFIs can provide blended finance mechanisms that reduce sovereign exposure. In more advanced markets, fintech partnerships can accelerate digital penetration. In SADC, South African banks can leverage

their home advantage in rand clearing through SIRESS, partnering with regional institutions to extend liquidity corridors.

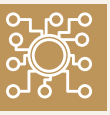
4. Develop AfCFTA-ready products

Product innovation must align with REC-specific market realities. In ECOWAS, where SMEs remain underserved due to forex volatility, there is scope for structured trade finance and currency-hedged supply chain platforms. In the EAC, where fintech penetration is high, API-driven cross-border payment solutions and interoperable digital wallets will differentiate banks from legacy players. For francophone WAEMU states, products must be designed to accommodate STAR-UEMOA settlement protocols, including digitised letters of credit and trade instruments that are compliant with relevant regulations. Across all blocs, embedding AfCFTA's rules of origin into credit products and contracts will be essential.

5. Invest in data and market intelligence

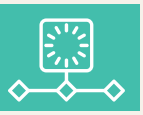
When assessing the regulatory maturity of RECs, it becomes clear that there are stark gaps in credit infrastructure, particularly in ECCAS, IGAD, and parts of CEN-SAD. To offset this, South African banks must explore alternative credit analytics models drawing on telco data, utility payments, and mobile usage. In high-opportunity markets like Nigeria, Kenya, and Morocco, deeper analytics can help target fast-growing retail and SME sectors while controlling counterparty risk.

6. Prioritise digital infrastructure



Digital-first approaches will define scalable operations under AfCFTA. In regions like EAC, South African banks should prioritise integration with mobile money ecosystems. In ECOWAS, blockchain pilots for trade verification could help bypass forex bottlenecks. In francophone markets, aligning with BCEAO-led digitisation drives will be critical to securing regulatory buy-in. Across all blocs, integration with PAPSS provides an opportunity, positioning South African banks as liquidity providers and settlement leaders.

7. Phased expansion by REC



In practice, expansion should be staged. SADC, EAC, and ECOWAS, which score higher on the Multi-Regulatory Maturity Scorecard for supervisory stability and financial depth, should be the first targets for scalable growth. More fragile blocs like ECCAS and IGAD can be approached through joint ventures, fintech-led pilots, or DFI-supported projects that lower entry risk. This phased model balances risk with growth, while demonstrating AfCFTA alignment to regulators and investors.

8. Strengthen FX and corridor strategies

Developing bilateral payment corridors such as ZAR-KES and ZAR-NGN with simplified convertibility protocols can reduce foreign exchange friction and settlement delays. Collaboration with central banks on liquidity management and FX mechanisms will be critical to build trust in cross-border settlement platforms and expand rand-based trade flows.

9. Promote public–private payment coalitions

Leveraging existing payments participants such as Afreximbank, regional fintech's, and central banks, to co-develop scalable solutions in digital payments, trade finance, and financial inclusion will ensure that South African banks are not only participants in AfCFTA's integration but also co-authors of its financial infrastructure.

Conclusion

AfCFTA marks a fundamental change in Africa's economic path, with effects that go far beyond tariff policies and trade rules. By establishing a current market of 1.5 billion people and a GDP of US$3.4 trillion, AfCFTA sets the stage for a unified continental economy.

If implemented promptly, by the end of the century, the continent will host about one third of the world's population with an average age of 35 years, making it the most significant market globally. For banks, the agreement presents both opportunities and challenges: a chance to generate new income sources through cross-border payments, trade finance, and supply chain services, but also a need to adjust business models to deal with fragmented regulations, currency fluctuations, and varying financial development among member states.

Sectoral hotspots underscore the scale of opportunity. The North–South Corridor through SADC provides banks with opportunities to finance transport, mining, and energy projects connected to one of the region's busiest trade routes. In EAC, fintech-led growth and cross-border retail flows demand interoperable digital wallets and SME credit products. ECOWAS, despite Nigeria's forex bottlenecks, remains a key market for trade finance and corporate lending, while North Africa (Egypt and Morocco in particular) presents opportunities in infrastructure, oil and gas, and capital markets. These opportunities are already materialising, as evidenced by rising REC-level trade volumes and the rapid uptake of systems like SIRESS and STAR-UEMOA.

Several dynamics will shape the next decade. Systemic barriers, Basel divergence, limited harmonisation, credit information gaps, and non-convertible currencies, remain significant, inflating compliance costs and constraining SME participation. Yet South African banks possess competitive advantages: regulatory sophistication, capital depth, and an established role in regional systems such as SIRESS. By leveraging these strengths, they can influence harmonisation, set standards in digital KYC/AML frameworks, and act as clearing and liquidity providers in new continental platforms like PAPSS.

South African banks must proactively engage in regulatory harmonisation efforts at the regional and AU levels, while at the same time investing in digital infrastructure that enables real-time settlement, data-driven credit scoring, and scalable supply chain finance. Partnerships with local banks, fintechs, and DFIs will reduce market entry risk and extend reach across underserved segments.

AfCFTA is already reshaping flows of trade, investment, and finance, albeit slowly. The challenge now is execution - balancing prudence with ambition, managing systemic barriers while capturing competitive advantage, and positioning South African banks to take a lead in Africa's financial integration.

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The Centre of Excellence in Financial Services (COEFS) was registered on 23 December 2016 as a non-profit organisation. COEFS' vision is to bring together thought leaders, both local and international, to interrogate the role financial services can play in achieving national and international objectives, in collaboration with industry experts and academics.

The organisation's mission is to identify friction points in the financial services sector and initiate appropriate research to engage policy makers, regulators and industry participants by initiating broader public dialogue through credible thought leadership.

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