



Jackson, Etti & Edu

# OPERATION OF PAN AFRICAN PAYMENTS SETTLEMENT SYSTEM IN NIGERIA

FINANCIAL SERVICES NEWSLETTER

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On October 11, 2021, the Central bank of Nigeria released the Guidelines for the Operation of Pan African Payments Settlement System (PAPSS) in Nigeria (the “Guidelines”). The PAPSS is a centralised payment and settlement infrastructure introduced by the African Export-Import Bank (“Afrexim Bank”) in conjunction with the West African Monitoring Institute (“WAMI”) to enable instant, cross-border payment in local currencies between African markets.

The pilot phase of PAPSS aimed at facilitating the smooth implementation of the African Continental Free Trade Agreement (“AfCFTA”) has commenced in Nigeria and other countries of the West African Monetary Zone (“WAMZ”). These countries are The Gambia, Ghana, Guinea, Liberia, and Sierra Leone. The PAPSS is expected to provide faster settlement and payment of cross border transactions within Africa at a reduced cost, with the air of boosting intra-African trades.

### **The key takeaways from the Guidelines are:**

- 1.The PAPSS supports the initiation of cross border retail payments in the local currency of the sending country and receipt of funds in the local currency of the beneficiary’s country.
- 2.While the inter-bank settlement will be in US Dollars based on a multilateral netting arrangement. Other currencies such as Euro and proposed single currencies for WAMZ and African Union (AU) would be added subsequently.
- 3.The net settlement model is based on prefunding by participating financial institutions through the domestic RTGS System.
- 4.Afrexim Bank will be the settlement agent and each central bank will maintain a US Dollar settlement account at Afrexim bank to settle eligible transactions from its country on a net basis.
- 5.Each central bank shall determine eligible transactions for which Foreign Exchange (FX) would be provided by them.
- 6.Commercial banks are permitted to maintain a US Dollar settlement account at Afrexim Bank to settle obligations for payments that may fall outside the eligible transactions, for which the central bank would not provide FX.



## **The CBN directed all Authorised Dealers to ensure that:**

- a. Eligible payment of imports and receipt of export proceeds by the CBN is restricted to trade-backed transactions only. Import payments shall also be restricted to goods of African origin.
- b. That the documents required in Memorandum 9 (for imports) and 10 (for exports) of the FX Manual 2018 and other circulars should be provided before a transaction is initiated on PAPSS by Authorised Dealers and their customers.
- c. Export proceeds repatriated to CBN under PAPSS shall be subject to certification by respective processing banks as being repatriated by the Exporter.
- d. The provisions of the existing guidelines, circulars, and directives regarding the FX market shall apply.
- e. The prevailing exchange rate at Investors and Exporters Forex Window as advised by the Financial Markets Department (FMD) of the CBN should be used in cross-rates conversion between Naira, USD and third currencies within Africa, for outbound payments and vice-versa for inflows.

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