GUIDELINES ON THE OPERATION OF PAN AFRICAN PAYMENTS AND SETTLEMENT SYSTEM IN NIGERIA

Introduction

On October 11, 2021, the Central Bank of Nigeria (CBN), issued the Guidelines on the Operations of Pan African Payments and Settlement System ("PAPSS") in Nigeria (the "**Guidelines**").

The CBN issued these Guidelines with the aim of fostering economic integration amongst African countries in tandem with the African Continental Free Trade Area Agreement (AFCFTA). Before the advent of PAPSS, transactions within West African Countries were conducted mostly in hard currencies (foreign currencies such as the USD, GBP, EUR amongst others), which was usually time consuming and more expensive. However, the introduction of this new payment system enables buyers in one African country to make payment in their local currency while the sellers in another country receives payment in their local currency. Therefore, payments carried out on the platform can be made and received in each party's respective local currency.

What is PAPSS?

PAPSS which is an initiative of the African Export-Import Bank (Afrixembank) in partnership with West African Monetary Institute (WAMI), is a cross-border payments infrastructure for instant payment transactions across Africa. The platform is being deployed within the West African Monetary Zone (WAMZ) - Nigeria, the Gambia, Sierra Leone, Liberia, Ghana and Guinea; before extending it to other regions within Africa. This platform has even been termed by some persons as the African equivalent of SWIFT. Interestingly, PAPSS was officially launched for use in Accra, Ghana, on Thursday, January 13, 2022.

This Article highlights the key features of the PAPPS, the Guidelines provided by the CBN for its use and some benefits of this initiative to the African economy.

Features of PAPSS

Outlined below are the key features of this platform as captured in the CBN's Guidelines:

- The platform supports payment in the local currency of the sender and receipt of funds in local currency by the beneficiary.
- It involves the use of Real-Time Gross Settlement (RTGS), which enables instant payments.
- Inter-bank settlements will be in United States Dollars (USD) for the time being. A proposed single currency for WAMI and the African Union (AU) will be decided upon in the future for inter-bank settlements.
- Afreximbank will be the settlement agent and the Central Bank of the participating countries will maintain a USD settlement account at Afreximbank.
- The Central Bank of each country has the prerogative of determining the nature of transactions eligible under the PAPSS.

Guidelines for compliance in Nigeria

To ensure effectiveness of this laudable initiative, the CBN has provided that the following guidelines are required to be complied with by stakeholders in Nigeria (government institutions, banks, payment providers, businesses and transacting parties):

- Payment of imports and receipt of export proceeds which are eligible for PAPSS as decided by the CBN shall be restricted to transactions that are solely for the purpose of trade.
- All required documents must be provided before a transaction is initiated on PAPSS by authorized dealers and their customers.
- The prevailing exchange rate at Investors and Exporters Forex Window and the Financial Market Departments shall be used to determine conversion rates between the Naira, USD and any other third currency within Africa.
- Only eligible transactions as may be determined by the CBN from time to time is eligible for payment on PAPSS.
- Banks in Nigeria would be given the opportunity to maintain a United States Dollars settlement account within the PAPSS settlement bank (Afrixembank) for transactions which fall outside eligible transactions.

Benefits of PAPSS/ What this means for businesses in African Countries

PAPSS will support the initiation of cross-border retail payments in local currencies between African Countries and this is expected to provide a simplified and faster settlement and payment process within Africa.

With the promulgation of PAPSS, it is expected that the following will occur;

i. there will be a significant boost to intra-continental trade;
ii. the PAPSS will reduce the costs incurred when trading with other currencies;
iii. traders will be able to make and receive payments in their local currencies which will eliminate the cost of acquiring hard currencies;
iv. government institutions will be able to keep a record statistics of cross border trade;
v. a demand for African currencies will become evident.

Conclusion

According to the Secretary General of AFCFTA, Mr. Wamkele Mene[1], it costs the African economy approximately $5 billion annually for currency convertibility. Based on the foregoing, the PAPSS if effectively executed amongst participating countries, has the capacity to create and foster a better payment system, and boost the economies of participating Countries.

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[1] Nigeria, others lose $5b annually on currency convertibility cost | The Guardian Nigeria News - 198 Nigeria News