

A map of the African continent is formed by a mosaic of various shades of wood planks. A thick, textured gold border frames the central text area.

# PAN-AFRICAN PAYMENT AND SETTLEMENT SYSTEMS

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# INTRODUCTION

**Intra-African trades experienced a major boost on Monday, October 11, 2021, when the Central Bank of Nigeria (“CBN”) took a major leap in facilitating the settlement and payment of cross-border transactions within the African Continent by issuing a new regulation that is titled: Guidelines on the Operations of Pan African Payments and Settlement System (PAPSS) in Nigeria (“the Guideline”).**

**This innovation by the Central Bank of Nigeria stemmed from the power given to it by Section 69 of the Banks and Other Financial Institutions Act (“BOFIA”) 2020 to issue regulations for the administration, standardization and governance of payment, settlement and clearance operations in Nigeria.**

**According to papss.com, the Pan-African Payment and Settlement System is a cross-border, financial payment infrastructure that enables payment transactions across Africa. This new Guideline jointly developed and introduced by the African Export-Import Bank (Afreximbank) and the West African Monetary Institute (WAMI) is highly expected to facilitate instant and simplified cross-border payments in local currencies within Africa through a simple, risk-controlled payment clearing and settlement system; thereby boosting intra-African trades, commerce and other economic activities.**

**The PAPSS is at present, a model program that is hinged on facilitating the seamless operation of the African Continental Free Trade Agreement (AfCFTA) in Nigeria, Guinea, Ghana and other countries of the West African Monetary Zone (WAMZ); before its full scale introduction and operation in all the African regions.**



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# HOW DOES THE PAPSS WORK?

Firstly, for transactions to be carried out, the Central Bank of the intending country has to be connected to PAPSS. The central banks of Afrexim member states are thus, the only ones entitled to connect to the system in order to assist PAPSS with settling transactions. This is so because Afrexim bank is the accredited national settlement agent.

For central banks of Afrexim member states to process and settle eligible transactions via the system, it is pertinent for them to enter into a PAPSS Membership Agreement and Settlement Bank Agreement. This will afford them the necessary opportunity to oversee and enforce compliance, including the regulations of local laws like anti-money laundering of commercial banks, fintechs, and other financial institutions in their respective jurisdictions. Once the central banks get connected to the system by entering into the agreements mentioned above, it becomes easy for other intermediaries such as card schemes, fintechs, financial institutions, commercial banks, etc. to connect as participants- thereby facilitating cross border services and transactions for their clients. However, being a participant is not as direct as it may look, intending participants must adhere to PAPSS bye laws which will in turn make them qualify as direct or indirect participants.



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# HOW DOES THE PAPSS WORK?

**For a participant to be classified as direct, it must:**

**Be a fully licensed financial institution**

**Be a separate legal entity. It must also operate as a single entity. This means that if the entity is part of a group, each structure within the group must apply individually to qualify as a direct participant.**

**Adhere to all the regulatory (financial or otherwise) requirements put in place by its applicable central bank.**

**Be willing to liaise and have a settlement account with the central banks of the countries in which it intends to use the PAPSS service.**

Anything short of the foregoing makes a participant indirect. Once participants meet the eligibility criteria (direct or indirect), it behoves on PAPSS to carry out due diligence and facilitate the onboarding processes while also enhancing network connectivity checks. It is in this light that intermediaries can then begin to process payments and settlements for their customers.

Because PAPSS supports fast and efficient processing of funds (promises that payments will be received within 120 seconds), it is important for participants to pre-fund their accounts to ensure liquidity.



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# KEY FEATURES OF THE PAPSS

- It 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. For example, if someone in Nigeria wants to purchase Kente in Ghana, the system allows the person to pay in Naira while the merchant in Ghana receives the money paid in Ghana Cedis.
  - Commercial banks are allowed to operate a US Dollar account at Afrexim bank to settle obligations for payments that fall outside their eligibility scope. However, the applicable central bank will not be in a position to provide foreign exchange for this purpose.
  - Though, what obtains now is that inter-bank settlement will be in US Dollars based on a multilateral netting arrangement, it is expected that Euro and other proposed single currencies for WAMZ and African Union (AU) will be added subsequently.
  - Central banks shall be in charge of determining eligible transactions and providing the corresponding foreign exchange.
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# KEY FEATURES OF THE PAPSS

**The Central Bank of Nigeria specifically directs all Authorized Dealers to warrant that:**

- **Import payments have to be with regards to goods of African origin.**
  - **The documentation requirements highlighted in Memorandum 9 (for imports) and 10 (for exports) of the Foreign Exchange Manual (2018) and other applicable extant circulars, guidelines and directives apply to all transactions under PAPSS.**
  - **Export proceeds intermitted to the CBN must be subject to certification by the processing banks as being intermitted by the Exporter.**
  - **Prior approval of the CBN is sought and obtained for USD cover before initiating payments through the PAPSS platform for the settlement of the CBN.**
  - **The prevailing exchange rate at the Investors and Exporters Foreign Exchange Window apply to cross-rates conversions between Naira, USD and third currencies within Africa for outbound payments and inflows.**
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# ADVANTAGES OF THE PAPSS

**Africa is at the fore-front of slow and inefficient payment system in the world with barriers ranging from lack of infrastructure to non-adherence to regulatory requirements. With the PAPSS in place, these barriers can fall off gradually, thus creating a more robust trading system in Africa.**

**In addition, delay in receipt of payments between customers and traders will no longer be the case as the system promises that payments will be received, cleared and settled in 120 seconds. What is more thrilling is that the hassle with trying to convert foreign denominations during cross-border transactions will be totally dispensed with.**

**Finally, we may begin to experience an increase in the purchase of goods made in Africa since intra-African payments are now seamless and straightforward. The demand for foreign currency will automatically reduce, thereby increasing foreign currency liquidity in applicable jurisdictions.**



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# CRITICISMS OF THE PAPSS

**While there are endless advantages associated with the PAPSS, some people have argued that the idea of asking financial institutions, payment service providers, etc. to connect to the PAPSS as participants (whether direct or indirect) will surely create inefficiency.**

**These critics posited that the proper way to go about this is to allow domestic switching companies (that is, companies that facilitate communication and transfer of data between financial institutions and payment service providers) to connect directly to PAPSS. According to them, this shouldn't be a hassle since most financial institutions and payment service providers are connected to their domestic central switch. A perfect example here is the Nigerian Interbank Settlement System (NIBSS).**

**It is believed that onboarding every financial institution and other applicable organizations to the PAPSS platform will take a lot of time and that connecting domestic switches is a step in the right direction.**



# CONCLUSION

**It is believed that the Guideline will facilitate the full operation of the African Continental Free Trade Area (AfCFTA)- which is expected to be one of the world's largest single markets and projected to be a multi-trillion-dollar opportunity for the continent. The Guideline will also ensure that African countries have active participation in the free trade zone. The instant payment feature under this system is very enticing, much more is its extension to Fintechs.**

**An orderly and prompt settlement of transactions under the PAPSS will afford commercial banks in Nigeria (Authorized Dealers) and the CBN to be actively engaged in the model program and other activities slated for the future.**

**It is however advisable for Nigerian entities who are desirous of participating in this system to adhere to the provisions of the Guideline, domestic foreign exchange regulations in Nigeria as well as the AfCFTA Agreement and Protocols.**

**We hope that trade barriers like poor transportation, frequent change in government and economic instability will not frustrate the great future that the PAPSS promises. It is however certain that PAPSS will change the face of trading system in Africa.**



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# CONTACT US



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