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THE PAN-AFRICAN  
PAYMENT AND  
SETTLEMENT  
SYSTEM (PAPSS) AS  
A CATALYST TO  
INTRA-AFRICAN  
TRADE

# The Pan-African Payment and Settlement System (PAPSS) as a Catalyst to Intra-African Trade

In recognition of the importance of bolstering intra-African trade, the Afreximbank developed and introduced the Pan-African Payment and Settlement System (PAPSS) in partnership with the West African Monetary Institute (WAMI). It was formally launched in Accra on 13<sup>th</sup> January 2022.

The PAPSS facilitates cross-border transactions by providing a financial infrastructure to address currency exchange challenges thus allowing payments to be made instantly in local currencies. Therefore, cross-border payments are made and received in the traders' respective local currencies.

Prior to the introduction of the PAPSS, payment settlements in intra-Africa trade involved the presence of multiple currencies namely, the local currencies of traders involved in the transaction and a third currency, such as the US Dollar (USD) or Euro, to act as an intermediary settlement currency. This approach affected transaction times, increased transaction expenses and exposed small and medium-sized

enterprises (SMEs) to risks and hardships in sourcing for foreign exchange.



## Participants to the PAPSS

Participants to the PAPSS generally fall under two categories namely:

1. Direct Participants
2. Indirect Participants

Direct Participants are required to maintain settlement accounts with their respective Central Banks while Indirect Participants are not required to maintain such settlement accounts. On this basis, Indirect Participants are expected to have a sponsorship

agreement with a Direct Participant to provide liquidity.

## Features of PAPSS

### Instant payments with pre-funding arrangements

To ensure the speed of transactions, participants to the PAPSS are required to agree to a pre-funding arrangement. The pre-funding arrangement entails the participation of Direct Participants into the domestic Real-Time Gross Settlement (RTGS) system.

### Interbank settlements

Interbank settlements would be done in USD based on a multilateral netting arrangement.

### Central Banks as national settlement agents

Central Banks are to act as national settlement agents and maintain USD settlement accounts at Afreximbank in order to settle eligible transactions from its country on a net basis. In addition to this, Central Banks play the role of supervising and ensuring compliance of Direct and Indirect participants with relevant laws and AML/CFT regulations in their jurisdictions.

### Eligible transactions

Central Banks are given the power to determine eligible transactions for which foreign exchange will be provided.

However, commercial banks are permitted to maintain USD settlement accounts at Afreximbank for the settlement of payments in relation to ineligible transactions.

## Guidelines on the Operations of PAPSS in Nigeria

The Central Bank of Nigeria (CBN) released Guidelines on the Operations of PAPSS in Nigeria in its circular dated 11<sup>th</sup> October 2021. By virtue of the Guidelines, Authorised Dealers are to comply with the following:

1. Eligible payment of imports and receipt of export proceeds by the CBN are to be restricted to trade-backed transactions only. Import payments are restricted to goods of African origin.
2. Before a transaction is initiated on PAPSS, Authorised Dealers and their customers are required to provide proper documentation.
3. Sums received from exports repatriated to CBN under PAPSS shall be subject to certification by respective processing banks as being repatriated by the Exporter.
4. Existing guidelines, circulars and directives on the operations of Foreign Exchange Market shall be adhered to.

5. The prevailing exchange rate at Investors and Exporters Forex Window as advised by Financial Markets Department (FMD) should be used in currency conversions between Naira, USD and third currencies within Africa.
6. Authorised Dealers are to obtain the approval of the CBN for USD cover.



*SMEs play an important role in the growth of several African economies.*

## Conclusion: The Impact of Facilitated Transactions on SMEs in Africa

Compared to other continents, Africa has had the lowest share of intraregional exports.<sup>1</sup> To correct this, the African

<sup>1</sup> [https://unctad.org/system/files/official-document/aldcafrica2021\\_en.pdf](https://unctad.org/system/files/official-document/aldcafrica2021_en.pdf)

<sup>2</sup> <https://au.int/en/ti/cfta/about>

<sup>3</sup>

[https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/Africa\\_SME%20web.pdf](https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/Africa_SME%20web.pdf)

Continental Free Trade Area (AfCFTA) has among its objectives the expansion of intra-African trade and enhancing industry and enterprise competitiveness.<sup>2</sup>

SMEs play an important role in the growth of several African economies and as such ensuring that they remain competitive would improve their access to other markets. SMEs account for more than 90 percent of businesses and employ approximately 60 percent of the labour force.<sup>3</sup>

At the launch of the PAPSS, it was stated that the platform could save Africa more than US\$5 billion annually in payment transaction costs.<sup>4</sup> Facilitating intra-African transactions opens up opportunities for Africa-based industries to access new trading partners thus improving supply chains and creating room for investment. Through the infrastructure provided by the PAPSS, intra-African trade is expected to increase to 35 percent over the next five years.<sup>5</sup> The PAPSS is therefore a step in the right direction at achieving the objectives of the AfCFTA Agreement as set out in Article 3.

<sup>4</sup> <https://www.afreximbank.com/pan-african-payment-and-settlement-system-launched-by-president-akufo-addo-foreseeing-5-billion-annual-savings-for-africa/>

<sup>5</sup> <https://businessday.ng/news/article/pan-african-payment-system-to-reduce-dependence-on-foreign-notes/>

For questions and further  
information:

## Contact Us

### LAGOS (HEAD OFFICE):

Gabsdall House  
(2nd – 4th Floor)  
26, Igbosere Road,  
Lagos State, Nigeria

### PORT HARCOURT:

13 Finima Street,  
Old G.R.A, Port Harcourt,  
Rivers State, Nigeria

**TELEPHONE:** +23414549824

**FAX:** +442089290855

**EMAIL:** [inq@grfdalleyandpartners.com](mailto:inq@grfdalleyandpartners.com)