



## **Fintech Regulatory Update:**

# **Examination of the Central Bank of Nigeria (“CBN”) Guidelines on the Operations of the Pan African Payments and Settlement System in Nigeria**





## Introduction

In a bid to facilitate the implementation of the African Continental Free Trade Agreement (“AfCFTA”), boost cross-border transactions across Africa and facilitate payments for such transactions, the Central Bank of Nigeria (“CBN”) on 11th October 2021 issued Guidelines on the Operations of Pan African Payments and Settlement System (the “PAPSS”) in Nigeria (the “Guideline”).

The PAPSS was introduced by the African Export-Import Bank (“Afreximbank”) to support the initiation of cross-border payments in local currencies between senders and beneficiaries initially within West Africa. The platform which will support the implementation of PAPSS is being deployed as a pilot within the West African Monetary Zone region before it is extended to the other regions in Africa. It is expected to provide a faster means of settlement of, and payment for, cross-border transactions at a reduced cost with the aim of boosting intra-African trades.

This update examines the features of the PAPSS, requirements under the Guideline and how the PAPSS is expected to impact payments within Africa.

## Key Features of the PAPSS

The key features of the PAPSS include the following:

- It supports cross-border payments in the local currency of the customer in the sending country, and receipt in the local currency of the beneficiary country.
- Inter-bank settlement of transactions will be in United States Dollars (“USD”) based on a multilateral netting arrangement.
- The inter-bank net settlement would be based on prefunding by participating financial institutions, through the domestic Real Time Gross Settlement System.
- Afrximbank shall be the settlement agent and each central bank will maintain a settlement account with Afrximbank to settle eligible transactions from its country on a net basis.
- Each central bank is to determine the eligible transactions for which foreign exchange will be provided.
- Participating commercial banks may also operate a USD settlement account with Afrximbank, to settle obligations for payments in respect of ineligible transactions, for which, in the case of Nigeria, the CBN will not provide foreign exchange.



## Principal Requirements for the PAPSS

In Nigeria, all Authorised Dealers (i.e., a Nigerian bank licensed by the CBN to deal in foreign exchange) are to ensure that:

- (a) Eligible payments for imports and receipt of export proceeds which are settled by the CBN, are restricted to trade-backed transactions only and that the documentation requirements stipulated in Memorandum 9 and 10 of the CBN Revised Foreign Exchange Manual 2018 (as amended) and other relevant applicable circulars are complied with.
- (b) Import payments are restricted to only goods of African origin.
- (c) The documentation referred to in item (a) above should be provided before a transaction is initiated on the PAPSS by an Authorized Dealer and its customers.
- (d) Export proceeds repatriated under the PAPSS are certified by the respective processing banks, as being repatriated by the exporter.
- (e) All existing guidelines, circulars, and directives on the operations of the foreign exchange market will apply to transactions settled under the PAPSS.
- (f) For outbound payments and likewise for inflows, the prevailing exchange rate at the Investors and Exporters Foreign Exchange Window are applied to cross-rate conversions between the Naira, USD and third currencies within Africa.
- (g) The prior approval of the CBN is required to be obtained for USD cover before payments that will be settled by the CBN on PAPSS are initiated. Requests for approval should be sent to “The Director, Financial Markets Department, CBN”.
- (h) Only eligible transactions<sup>1</sup> can be initiated on the PAPSS for the settlement of the CBN.

Authorized Dealer banks are also permitted to maintain a USD settlement account with Afreximbank to provide cover for transactions which fall outside the eligibility requirements described above.

<sup>1</sup> The list of eligible transactions can be varied by the CBN from time to time.



## Conclusion

It is worthy of note that prior to the launch of the PAPSS, settlements for intra-African trade required a third country currency (usually USD) and the involvement of, a non-African correspondent bank. In addition to the time constraints this imposed, the process of currency conversion added significantly to the cost of doing intra-African businesses.

Consequently, in a bid to actualise one of the objectives of the AfCFTA to liberalize intra-African trade, the PAPSS was introduced as a tool to address the above constraints by significantly reducing the challenges being experienced in African regional trade payments. It is also aimed at enabling the efficient flow of money securely across African borders thereby minimizing associated risks and contributing to financial integration across African regions.

With the proper implementation of the PAPSS, it is expected that the various barriers plaguing the payment systems in African countries such as lack of infrastructure, regulatory requirements etc would be eliminated. Customers and traders may no longer have to spend many days waiting for the confirmation or receipt of funds to facilitate a trade, as payments would be cleared and settled in real time. The implementation is also expected to result in a reduction in the demand for foreign currency, and reduce the pressure on central banks to provide foreign currency to settle transactions thereby increasing foreign currency liquidity in various jurisdictions in Africa.

Finally, the introduction of the PAPSS into the Nigerian payment framework, in addition to enhancing cross-border trading, is expected to improve the Nigerian economy by encouraging the development of new fintech products through collaboration with other African countries. This bold step will, in our view, set the tone for the actualization of one of the objectives of the AfCFTA by not only changing trade within Africa, but also impacting on how trade is done between Africa and other countries across the globe.

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