

## CENTRAL BANK OF NIGERIA'S GUIDELINES ON THE OPERATIONS OF PAN AFRICAN PAYMENT SETTLEMENT SYSTEMS (PAPSS) IN NIGERIA

### Introduction

The Central Bank of Nigeria ("CBN"), in a bid to continuously make efforts to improve the Ease of Doing Business in Nigeria and also to facilitate the implementation of the African Continental Free Trade Agreement ("AfCFTA"), on October 11, 2021 issued the Guidelines on the Operations of Pan African Payment Settlement System ("PAPSS") in Nigeria (the "Guidelines").

Prior to the introduction of PAPSS, settlement of cross-border transactions between Nigeria and West African countries, were via non-African correspondent banks.

The African Export-Import Bank ("AfriExim"), in partnership with the West African Monetary Institute, introduced the PAPSS, as a pilot within the West African region before extending same to other parts of Africa. The PAPSS will support the initiation of cross-border retail payments in local currencies between the sender and the beneficiary within West Africa and is expected to provide faster settlement and payment of a cross-border transaction at a reduced cost.

### Features of the PAPSS

1. Support of cross-border retail payments in the local currency of the customer in the sending country, and receipt in the local currency of the beneficiary country.
2. The net settlement would be through inter-bank and settlement would be in United States Dollars based on a multilateral netting arrangement. The system aims to include other currencies, such as the Euro, as time goes on.
3. The settlement model for PAPSS will be pre-funded by participating financial institutions through the domestic Real Time Gross Settlement System (RTGS), while AfriExim would operate as the settlement agent and each Central Bank (of member states) would operate a United States Dollars settlement account with AfriExim to settle eligible transactions from its country on a net basis.
4. Eligibility of transactions for the PAPSS is to be determined by the Central Bank of each participating/member country.
5. Lastly, PAPSS allows commercial banks to maintain United States Dollars settlement accounts with AfriExim to settle obligations for payments, for transactions that will fall outside the ambit of the transactions approved by the Central Banks of the participating/member countries.

### The Guidelines

Pursuant to the foregoing, the CBN issued the Guidelines to set out modalities on how the PAPSS would operate in Nigeria. In view of this, the CBN has directed all banks to ensure that:

- (a) Eligible payment for imports and receipt of exports must be restricted to trade-backed transactions only and the requirements set out in the Nigerian Foreign Exchange Manual 2018 and other CBN circulars must strictly be adhered to.
- (b) Banks must obtain the approval of the CBN for United States Dollars cover, before initiating payments on PAPSS.
- (c) Export proceeds repatriated to the CBN under PAPSS must be subject to certification by various processing banks as being repatriated by the exporter.
- (d) The prevailing exchange rate at Investors and Exporters Forex Window as well as Financial Market Departments would be used for transactions carried under the platform.
- (e) Finally, in line with the AfriExim initiatives, banks in Nigeria would be permitted to maintain a United States Dollars settlement account under the PAPSS to provide cover for transactions which fall out of the eligibility threshold of the CBN.

### Conclusion

The PAPSS and the Guidelines are laudable developments in light of the efforts being made to improve cross-border transactions within West Africa, especially to bridge the trade gaps experienced between the Anglophone and Francophone West African countries. The success of PAPSS in West Africa would serve as a catalyst to smoother and easier implementation of AfCFTA and its boundless opportunities for the continent to come of age.

It is important to note that the implementation of PAPSS would not only increase cross-border trading but also help to increase the development of more Fintech products within Nigeria and other West African countries, where parties in different countries using different currencies can transact businesses without the involvement of a commercial bank as an intermediary.

Lastly, the efficient implementation of the PAPSS and strict adherence to the Guidelines by banks will stimulate the Nigerian economy.

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